PwC's 2024 Workforce Radar Report

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But how?

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What's inside

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As business leaders, it can seem like the ground is continually shifting beneath your feet. Trying to find your balance, let alone gain ground in the marketplace, has never been harder than it is today, nor more necessary. With this research, we set out to explore how businesses can find their footing in our changing world by transforming their workforce — and, in turn, themselves — to meet the challenges ahead. We wanted to better understand the practical steps organizations can take over the next three years to not just change with the times but lead that change. Here's what we found.

You're probably getting pretty sick of reading the word "unprecedented." War. AI. Climate change. Resource scarcity. Political polarization. Demographic upheaval. People, industries and technologies are all growing exponentially more interconnected, more complex and more dynamic as each innovation and revolution feeds the next. These "megatrends" exacerbate one another, making it even harder for people, businesses, governments and others to change their trajectories. And these megatrends are unlikely to abate anytime soon — if anything, they're growing in strength. Business leaders are rapidly being asked to shepherd their people and organizations through one transformation after another, adapting to ever-evolving needs and strategies.

Understanding and assessing future workforce needs becomes even more critical and complicated as businesses navigate profound changes ushered in by artificial intelligence (AI). No longer just an enabler of automation, AI is now an integral part of business operations, where AI systems and human employees collaborate seamlessly, transforming not just how work gets done, but who does it, **the skills required in the workforce** and how companies need to plan for the future. Organizations need to adopt new strategies for talent acquisition and development, making sure that their workforce is equipped to thrive in AI-driven environments. Executives and managers should also master the use of AI-driven workflows while leading teams where AI agents are key contributors. This requires a strategic approach to trust in workforce management, where the deployment of AI is carefully balanced with the development of human skills, making sure both AI and human capabilities are leveraged to their fullest potential.

Bluntly, there's no such thing as business as usual anymore. In fact, 45% of CEOs in PwC's 27th Annual Global CEO Survey told us their organizations won't be viable in 10 years if they stay on their current path. That's why we set our sights forward, looking for clues about what leaders can do in the near-term to help transform and reinvent their ways of working.

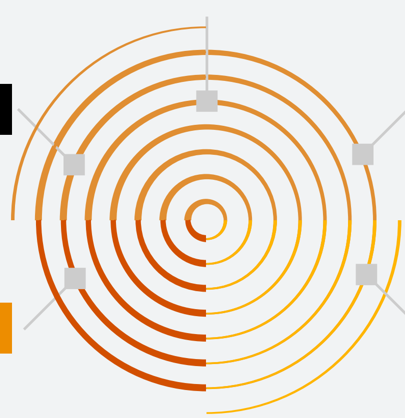
PwC's Workforce Radar relies on research and data from a wide variety of sources across the PwC network, including recent PwC research as well as our own in-depth knowledge and experience of working with clients across industries, sectors and geographies. We also took advantage of three interrelated surveys fielded in April 2024, comprising 18,000 employees, 2,600 business leaders and 1,300 HR leaders at US-based companies.

Evolving your workforce over the next three years won't be easy, but it's vital. We have detected **five workforce signals** on our radar that leaders should turn their attention toward if they're to make navigable headway through continued change and transformation. Each signal — **the talent magnet-talent factory equilibrium, work location, intelligent enterprise technology, the workforce balance sheet, and leadership and trust** — can be acted upon using certain levers, behaviors that businesses can implement, prioritize, customize and expand. When used with intention, these levers can empower your C-suite and workforce to play a critical role in the enterprise-wide transformation you seek.

The five Workforce Radar signals

Talent magnet-talent factory

Identifying the right balance of employer brand and skill building required to attract, retain and develop the talent to drive business outcomes



Leadership and trust

Developing your key leaders to be the innovative visionaries who inspire trust, instill loyalty and use technological insights to define and reach their business objectives

Location

Devising an intentional location strategy that balances the needs of your people and your businesses while maximizing cost efficiencies

Workforce balance sheet

Optimizing your workforce balance sheet and understanding the levers of cost savings to reveal opportunities to reinvest in the employee experience

The intelligent enterprise

Developing your foundational human capital technologies while staying ahead of profound workforce shifts that AI brings as it becomes a natural part of how business transforms

Signal 1

Taking both a talent magnet and talent factory approach

It's not a choice *between* the two, but it *is* a choice of which to lean into

Organizations today need to be both a talent magnet and talent factory — meaning not solely one or the other, but a company that simultaneously attracts the talent it needs to grow and drive its business strategy, as well as one that identifies and builds its capabilities from within. Which you lean into and when are matters of your business landscape, focus and priorities — and then taking the appropriate action to bring your choice alive using the levers at your disposal.

Your organization's success depends on its employees. After all, you can have the most data-driven business strategy; the most cutting-edge technology; the most MBAs on your team; the most inspirational mission, vision and purpose statements; the most efficient operations; and the most dynamic corporate culture — all good. But if you don't have the right employees with the right abilities in the right positions at the right time in the right place, none of it matters. AI alone is fundamentally changing what skills are needed at every level of the business, so you need to be ready.

And yet from our experience and research, we've learned that many organizations and their leaders still don't seem to understand that a workforce that doesn't have the right mix of talent — or an effective, flexible method to make sure that it does — puts the company at risk, especially today. As how work gets done changes, many companies may be depending on yesterday's workforce skills instead of tomorrow's — without even realizing it.

The good news is that you can create the right *alchemy* of talent — though alchemy suggests mystery, and we don't believe there's much mystery to creating a workforce that is purpose-built for your business objectives. The key is to understand whether your organization is currently more or less of a **talent magnet** or **talent factory**, and which you need to be more or less of at any given time to achieve your strategic outcomes.

Talent factories are in talent development mode, trying to grow and develop their people from within. They're developing learning platforms, offering leadership training and are more focused on succession planning, for example. True talent factories are known for being places where people want to stay and build their careers because they believe they can. We've seen many organizations shift toward being a talent factory to build scarce skills from within, such as upskilling in emerging skills like GenAI and data analytics. These are hard to find and expensive to acquire from the external market.

Talent magnets are in talent attraction mode. Maybe they're entering a new market, adding a new capability or function or doing anything else that is a change in direction or strategy requiring new talent. If you're hiring at scale, then you'll be amping up your external marketing and communications, staffing more recruiters to go out in the market and talking up your organization's total rewards packages. True talent magnets are known for being extremely attractive places to work with inspiring leaders, and many people want to join their workforce.

It's not either/or — it's both

But organizations don't have to choose between talent magnet or talent factory. It isn't a binary choice. No organization is wholly one or the other, nor should they be. Organizations are both at the same time, based on their business strategy. In fact, being a talent magnet may make it easier to be a talent factory, and being a talent factory may make it more attractive to be in your company. Those things can support each other.

Most business leaders understand this. It's a matter of emphasis based on the business outcomes they seek. Our research shows that of business and HR leaders who agree that their companies are talent magnets — and 97% do — 98% of business leaders and 96% of HR leaders also agree their companies are talent factories. As magnets, they're attracting talent from the outside. At the same time, as factories, they're investing in employee development and upskilling.

However, while business and HR leaders are fairly confident that they're both talent magnets and talent factories, their employees beg to differ — by more than 30 percentage points, in fact. Only 62% of employees agree that their organization is a talent factory, while only 64% agree that it's a talent magnet. This is problematic for a number of reasons. If there's a disconnect between what you're saying about your organization and what your workforce is experiencing, you may lose workers because they've lost faith or trust in you. Also, a gap like this can stymie your implementation of employee programming, since it's the employees who execute strategy and need to be aligned with their leaders on the vision.

In addition, when we look at how various employee populations view their organization's status as a talent magnet or talent factory, we find significant differences in gender and generation. (Interestingly, we did not find this same difference when looking at race/ethnicity.)

A 20-point gender gap exists between perceptions, with only 54% of women viewing their organization as a talent magnet, while 73% of men view their organizations that way. Similarly, just 52% of women view their organization as a talent factory, again compared to 73% of men. When it comes to age, the differences are equally dramatic.

In these circumstances, if you're in factory mode, you may need to pull the various levers that make staying and building a career with you across gender and generation the right choice — and implement an internal communications effort to confirm that your entire workforce is aware of the organization's strategies and talent development opportunities. Given the differences in gender and generation, you may need to design programming focusing on developing and engaging disenfranchised populations. All of this counts if you're in talent magnet mode, too, since in the world today anything you do internally impacts your external reputation and appeal.

We asked how Fannie Mae, for example, laid the groundwork to be able to quickly pivot from being a talent factory to talent magnet through the creation of a job and skills framework. Historically, Fannie Mae had leaned toward the factory mode, concentrating on career development, a flexible work environment and strong connection to its mission to advance equitable and sustainable access to homeownership and quality, affordable rental housing for millions of people across America. This allowed the company to look at its workforce with what Dave Hofman, senior vice president, human capital and talent at Fannie Mae, calls "open eyes" that unlocked the company's ability to be more intentional about how they hire, develop and deploy talent. Fannie Mae's investment proved to be especially useful during the pandemic, as it was able to pivot during the wild swings in compensation expectations to quickly adjust salaries for specific roles.

What's unique to every organization is the extent to which it's serving as a talent magnet or factory — and how skillfully it can boost one or the other as its business strategies evolve, the macroeconomic environment changes, world events occur or other circumstances impact its needs and objectives.

Think of it almost as a sliding scale. Where you are on this scale might vary across your business. You might have a high-growth area that needs to lean into being more of a magnet, while another area of your business has specialized needs that make more sense to develop internally, and so will emphasize being a talent factory.

Whatever you decide, you need to be intentional, based on data and insights you have into your business and the strategy you're working toward.

Putting it into action

Our research and experience with clients suggest four levers that matter most. They're the ones that will get you where you want to be on that sliding scale. Again, they're not phases, but four options that you can use to dial up or dial down as necessary to reach your goals.

My organization is considered a "talent magnet."

67%	73%	57%	42%
Age 18–27	Age 28–43	Age 44–59	Age 60+

My organization is considered a "talent factory."

66%	72%	55%	41%
Age 18–27	Age 28–43	Age 44–59	Age 60+

Source: PwC Workforce Radar 2024; base: 18,237

Lever 1: Total rewards and well-being

All the lofty language in the world isn't going to lessen the need for you to offer potential employees fair, equitable and competitive **compensation**, the primary component of the overall total rewards mix. There's no getting around it. If you're not paying your people well, you won't attract or retain the right talent. One-fifth of employees indicate their current income is below their current needs (e.g., they have trouble paying for basic necessities like housing and transportation). You might save on payroll, but you probably won't make as much revenue as you might with higher-performer workers. There's a threshold — a market rate — below which you cannot dip. Our research shows 42% of employees making less than $75K would not trade a raise for any other benefit. For those making more than $75K, better benefits, followed by greater flexibility, become more attractive. Compensation is important.

But compensation is even more important if you want to become a talent magnet. After all, the battle for top talent is fierce, and there's no reason to think that "talent wars" will end anytime in the next three years. In fact, in an ever-more-complex world with ever-more-complex technology available, the people who have the right skillsets, mindsets and attitudes will likely continue to be in high demand. Skimp on compensation at your own expense.

The options within this lever go beyond base pay, however. Consider how performance-related pay can influence your retention figures. Your top talent may work harder for the carrot of a performance bonus, but they'll leave you if they feel pay is unfair and that their effort and contribution are not seen and rewarded. Taking the view that base pay is the only or most important element within this lever will cost you.

And it will give you less leeway in adjusting other compensation elements as well. To really make the most of it, take into account other equity programs — stock options, bonuses, paid sabbaticals, student loan assistance, retirement saving programs, financial wellness education, home-office stipends, payroll payments, even small low-interest loans — based on outcomes delivered, for example, and how you can use them as part of a competitive compensation package to help attract the talent you need.

Don't be surprised that to boost your talent magnet side you may need to dial up your compensation and pay above market rate for top candidates, who may have a variety of options and opportunities. In this mode, marketing externally takes on more importance, getting your organization's story out there so candidates feel drawn to you over others, beyond compensation alone.

There's internal work that needs to be done, too, because the employees you have now will influence your ability to attract the employees you want later. While you should be beefing up (or initiating) your bonus referral offering, it's also important to align what you are paying your employees with what they believe they should be paid. When one out of four employees isn't happy, that can drown out the three who are. Unhappy employees talk (but so do happy ones). They influence others. They drive your reputation. Employees can help your brand attract future talent (92% of employees who think they are paid fairly would recommend your organization) or hurt your brand (only 63% of those who believe they aren't being paid fairly would recommend your organization). Interestingly, when employees feel they have some power over where and when they work — at the office, at home, some combination of the two — they are more likely to feel they are being compensated fairly.

If your goal is to become more of a talent factory, however, you may not need to dial up compensation since you're not necessarily trying to build new capabilities that require new talent. Instead, focus on rethinking the components of your benefits package, including retirement benefits or continuing education, which are becoming a greater concern for employees.

Why? Because if you're trying to retain people — especially those early in their careers who show great promise and those with many years of experience who have what it takes to help your organization get to the next level — your benefits offerings can be a clear differentiator. They can, and should, reflect your organization's values and commitment to an employee experience that goes above and beyond the workplace. Ninety-six percent of business leaders and 97% of human resource leaders agree that their organization's benefits are differentiated from their competitors. At the same time, 25% of employees do not agree their employer's benefit offerings are differentiated, suggesting that companies may be overestimating the power of their benefit offerings in retaining and attracting talent.

97% of human resource leaders agree that their organization's benefits are differentiated from their competitors

So be smart about it. Don't just offer the latest, trendiest, buzziest benefits because you can. On-site yoga classes and animal-friendly workspaces will get you only so far. More likely they'll be expensive programs, underutilized and underappreciated by your workforce. They won't have staying power.

Instead, make an effort to find out what your employees want and what they'll actually use. In the face of the "great resignation," the stress of remote work, job burnout and other retention challenges, organizations started offering new health and wellness benefits — with good intentions, perhaps, but not always with much forethought. Many were costly to implement. Worse, they often went unused. Since then, many of those same organizations haven't reassessed and realigned their benefits to what their employees would truly value and use. Gender differences can come into play here, too. Listen to and invest in what women want — and increasingly expect — such as coverage for reproductive health, hormone replacement therapy, specialized physical therapy and phased maternity leave (which might be a paternity leave issue, as well).

This is where preference analytics comes in — the ability to calculate the relative value of various preferences in comparison to others. Ask your employees what they want and listen to what they have to say. Are you offering what they want or what you think they want? If there's a disconnect, why? What trade-offs are your employees willing to make? More time off, childcare reimbursement and mental health support and fewer benefits like discounted gym memberships and on-site baristas? Take the answers to these questions seriously when revisiting your compensation and benefits package. We did this ourselves. At a certain threshold PwC employees give more value to 'protected time off' — that is, simultaneous time off across the firm so we don't return to a clogged inbox and missed meetings — than we did to additional compensation, benefits and rewards.

That's not the end of it, though. Using preference analytics, it's not only a matter of asking employees what they want and what tradeoffs they would make with their total rewards. It's also then adding all the cost data to the equation to understand how different tradeoffs impact total cost to the company. Most companies concentrate only on what employees say they want or *how much* certain benefits cost. Using a preference analytics approach allows companies to achieve a total rewards mix that has the highest alignment with actual employee preference at the *lowest cost.*

Finally, you still need to measure on the other end to confirm that your employees are using the benefits package that they and preference analytics helped you shape, as well as whether those benefits are contributing to, say, retention to confirm you're getting the ROI on the choices you've made. For instance, are the employees who are taking advantage of Benefit A more likely to be retained than those who don't?

Ultimately, compensation and benefits are among the easiest and quickest ways to make a measurable difference in people's lives. Table stakes, perhaps, but still a lever that deserves your thoughtful and ongoing attention.

Lever 2: Places and spaces and how they're used

When do your employees want to work — and where do they want to do their work from? Those used to be about the easiest questions to answer. *Wait, scratch that,* because before the pandemic, hardly anyone asked those questions at all. And if they did, the answers would have been pretty straightforward and simple: Either "nine-to-five" or "where and when we say so." Those days are long gone.

Now it's time to look ahead at what will be. That's why those when and where questions are more relevant than ever, and it's harder to determine what the right answer is for you and your workforce. But that's where your future lies. Organizations and leaders have been struggling with these decisions since 2021. We'll explore that more in Signal 2: Location.

To exercise your talent factory side, think about flexibility and what it means for your workforce, and think about it in terms of equity and fairness. After all, someone on your logistics team who sits in front of a computer all day will have one set of wants and needs, while shift workers on the plant floor, the people climbing utility poles, flying planes or ringing up merchandise, will have a totally different set of wants and needs. And they all have to be satisfied. Just because someone is a driller on an 22,000-ton offshore oil rig in the Gulf of Mexico doesn't mean they don't want flexibility in their work life. The challenge is how to satisfy everyone's wants and needs.

Ultimately CEOs and CHROs should think about offering the **flexibility** for all employees to have some choice in how they fulfill their role in the organization. Flexibility is about providing an employee experience that's as right for your employees as it is for your organization.

On the face of it, flexibility for office workers who can do their jobs remotely seems like it should be a no-brainer. Yet only 67% of employees agree that their schedule is flexible enough to meet their personal needs. Let them work at the office, at home or some hybrid arrangement unless there's a truly compelling reason not to. In financial services, for example, regulators are increasingly asking about control and monitoring for specific roles. That may be enough of a compelling reason to back up the now well-known return to office made by many big banks.

But there's more to it than that, which is why this seemingly easy response gets complicated. When you offer employees a broad set of options like this — as we'll see across many levers not only in this section but elsewhere in this report — there are tax implications that need to be considered. There's the expense of the additional technology and support necessary to enable a connected experience for remote and hybrid workers, the potential expense to confirm you have enough office space (or that you're not paying for too much) and that the office space you have is suited to the employee experience you want to offer.

For workers who are out in the field — or on the floor or up in the sky or far out at sea — it's an equally complex situation, but it's not insurmountable. Sure, they may not be able to work anywhere but where the actual work is done, but you can still provide options for flexible scheduling and start times, shift swapping and varied shift durations, among other creative options. Only 48% of employees who cannot work remotely because of the nature of their job say their work schedules are flexible enough in terms of hours and days to meet their personal needs.

In response, employers should identify and offer these workers the same level of flexibility as they do traditional office and knowledge workers. To create more flexibility for support staff in health care settings, for instance, tablets might be used to allow remote health assistants to participate in exams, taking live notes on patient records while a physician or nurse practitioner conducts the exam itself in-person. Insurance claims adjusters might be able to spend less time in the field by leveraging customer-submitted images for routine claims or using imagery from drones, focusing their field time on the most complex cases.

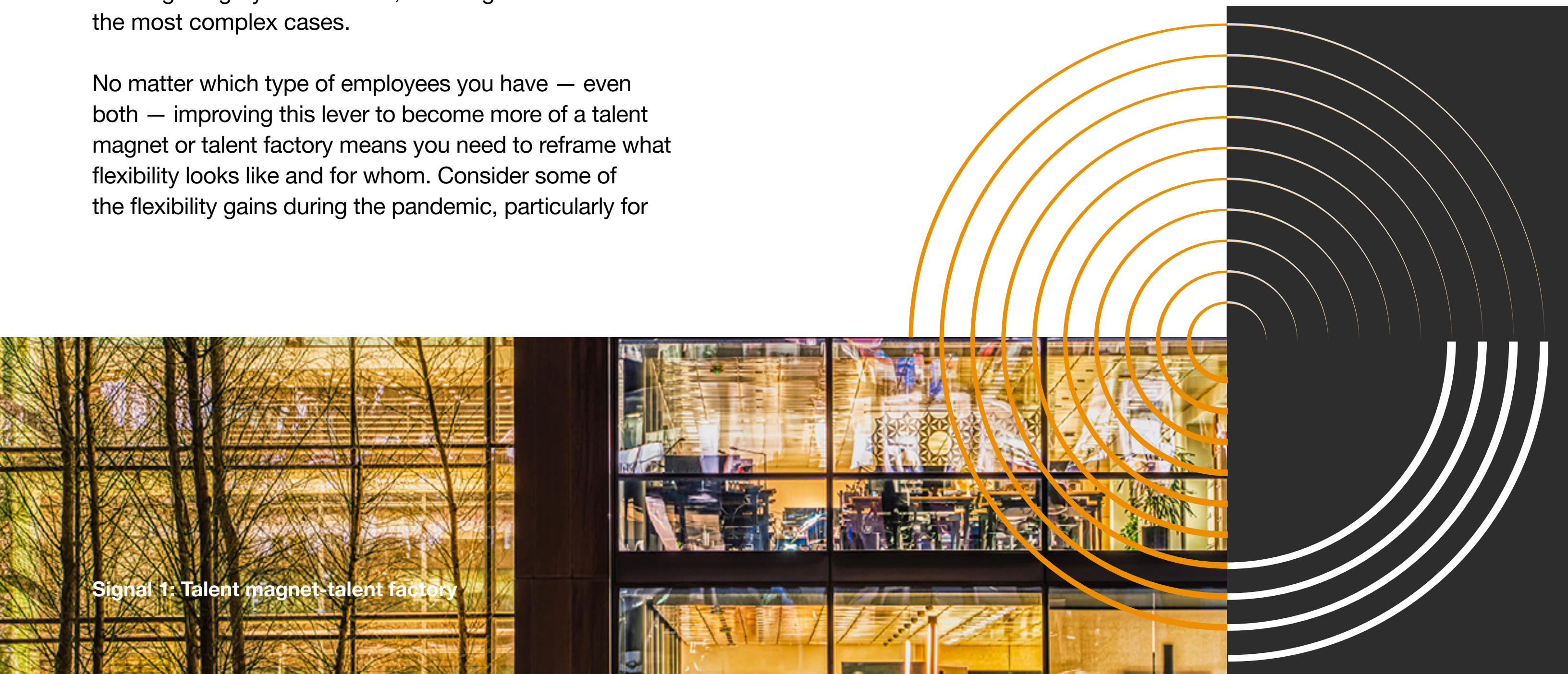
No matter which type of employees you have — even both — improving this lever to become more of a talent magnet or talent factory means you need to reframe what flexibility looks like and for whom. Consider some of the flexibility gains during the pandemic, particularly for employees with disabilities (both seen and unseen). Flexibility is a way to attract a more diverse employee set and tap into a talent base that might otherwise opt out of the workforce.

Location also comes into play. In this case, location is broader than the physical location of *where* people work, it's also about **the environment *in which* people work** — especially if you want to become more of a talent factory — and how that environment can help organizations emphasize where they are on the talent magnet-talent factory spectrum. Whether primarily a talent magnet or a talent factory, companies make investments to make sure their office spaces are conducive to work (both collaborative and independent) and confirm physical spaces reinforce desired culture traits. For example, our clients who are trying to shift to more innovative cultures are investing in physical innovation labs — places designed for experimentation, modeling and learning, as well as creating more fun spaces with games to unlock creative thinking.

The locations of your operations and what we call **work modality** — meaning whether your workforce is fully on-site, fully remote, distributed or some hybrid combination. Related issues such as the tax implications of your choices are discussed in detail starting on page 15.

48%

Only 48% of employees who cannot work remotely because of the nature of their job say their work schedules are flexible enough in terms of hours and days to meet their personal needs



Lever 3: Meaningful work and the role of skill-building

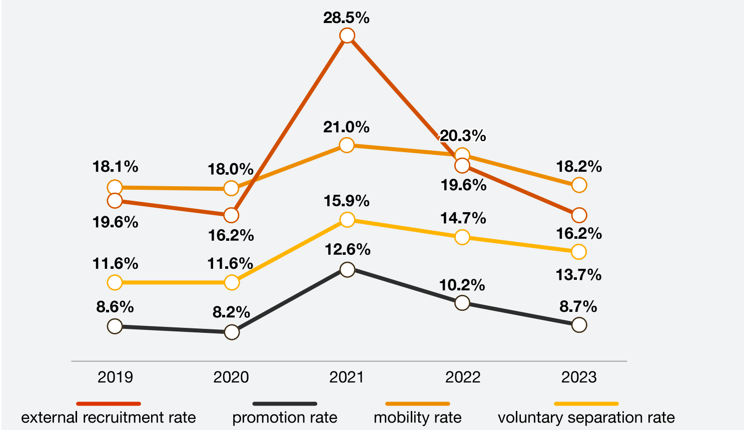
For the most part, your employees want to grow in their careers and know that what they do matters. Many want to do new things, try new things and learn new things. Face it, they want to be promoted. For some that could mean getting a master's degree, for others a high school equivalency diploma. While employees can go back to school or take classes at night or on the weekend to build and evolve their **skills**, they also look to their employers for these opportunities.

Employees who feel they have a promising future at their company are 1.7 times more likely to stay, 2.3 times more engaged and 2.4 times more likely to recommend their company to others compared to employees who don't feel they have a promising future.

The return on investment is clear, however. Most employers are still early in their journey: Only 47% of employees say they moderately or strongly agree that their employer provides adequate opportunities to learn new skills that would be helpful to their career, and 30% don't agree at all that their company provides upskilling opportunities instead of hiring from outside the organization. Yet almost half say that having opportunities to learn new skills is a key consideration when it comes to their decision to stay with their employer or leave for another one.

Another complicating factor is that companies hired a slew of new people and promoted others for retention tactics in recent years but decreased their investment in learning and development. Now they're correcting for that. In fact, data shows a continued decline in external recruiting and internal mobility.

Organizations need to be careful, however, because employees got used to those faster promotions and additional hires to take on the work. Now promotions and hiring are going back to pre-pandemic levels, and memories are short. Today, employees may feel less optimistic about their career growth opportunities and the ability of the organization to hire more people as workloads increase. If companies are going to continue to limit promotions and hiring, they need to provide other ways for their employees to feel like they are continuing to grow and advance in their careers.



Source: PwC Saratoga Benchmarking 2023

Similarly, job *candidates* are looking closely at how their potential employers see their future at the organization. They're not only asking if there are opportunities to grow, they're asking if they can grow into those opportunities.

Before you rethink the training programs you have or introduce new ones, you should identify the skills you need today and the skills you'll need over the coming years. If you don't, you may spend a lot of time and resources creating and offering upskilling that your employees won't be interested in and that won't advance your business strategy, either. Consider also building relationships with local educational institutes you can invest in, securing a pipeline of interns and new hires with the most cutting-edge skills, especially when it comes to new technologies like AI.

Start by building a talent architecture, if you don't already have one, so you can organize, classify and manage the skills and competencies you have in your organization. Then create a skills ontology (AI can help, see page 17), which takes that skills architecture to the next level by showing how skills throughout the organization relate to one another within the context of your business. An employee who has a business intelligence skillset, for example, may be better positioned to shift their career path to a data product manager, which still leverages a data science foundation but adds in the skillset of customer experience design.

If you want to be a talent factory, a skills ontology can help you take the skills you currently have in your workforce and develop projections based on that data for how those skills may evolve over, say, the next three or more years. You can use that information to develop upskilling programming to expand opportunities for your current workforce, which will deliver real outcomes and returns.

And while you may think you need to become a talent magnet because you foresee needs in emerging areas like AI and cybersecurity among others, you may want to reconsider. Out bidding the competition just to see that talent leave when another even higher-paying offer comes along is not a winning solution.

A better solution may be switching to a talent factory approach, using your skills framework and ontology to find related proficiencies among your existing workforce and then investing in dedicated training and development programming to create that specialized talent from within. You may even already have that talent and don't know it because your current staff isn't aware of the organization's talent needs.

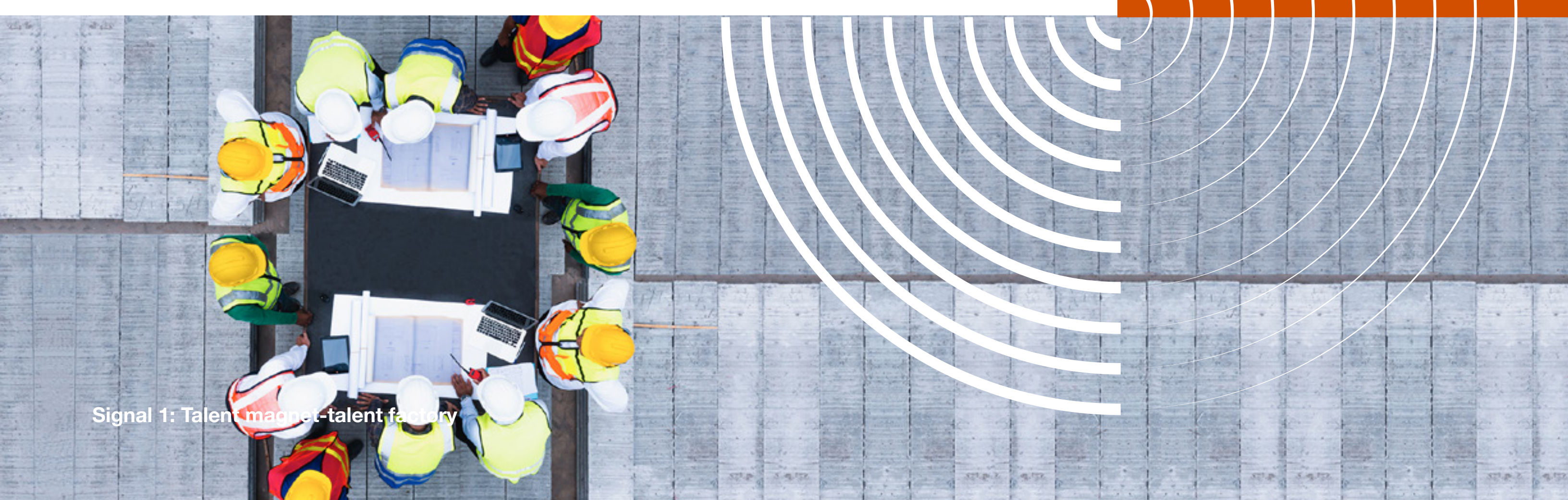
That was the case with software company Ubisoft, which was experiencing rising attrition due to perceived lack of internal mobility and other opportunities for current employees. A closer look revealed that managers were not sharing career growth opportunities with their teams. In response, it created a new AI-driven talent marketplace so employees could easily discover new opportunities that mapped to skills they already had. This gave the employees themselves the ability to develop and grow their careers. The marketplace was rolled out in 28 countries and within only six months, 55% of employees were using it to enhance their careers, which has increased employee retention and satisfaction.

A skills framework and ontology have another important benefit. While conventional in-house "universities," for example, are still relevant, employees and job candidates today expect more. However, it's difficult to devise and implement upskilling programs until you know the proficiencies and skills you have across the organization and how they all relate. Plus, you could find yourself overspending on programs you don't need. In addition, women consistently report that they don't feel like the employee experience is designed for them. As we mentioned earlier, only 52% of women feel their organization is a talent factory versus 73% of men. So take this into account. Find out what your employees want and what they think will help them advance their careers with you. After all, when half your workforce is telling you it doesn't believe the employee experience is working for them, that's a critical piece of information worth acting on.

Once you've done your homework, you can broaden your offering to include a learning experience platform (LXP), on-the-job training programs, apprenticeships, mentorships, certification programs and more to confirm you're offering a holistic program to everyone who works in your organization, which will not only answer their needs today and those in the future, but your own.

52%

Only 52% of women feel their organization is a talent factory versus 73% of men



Lever 4: Culture and brand

Culture can be the glue that binds people together and makes them feel connected to the company, to one another and to the organization's senior leaders. It can also drive performance. Employees who responded favorably that their company has a distinctive company culture are 1.6 times more likely to indicate their organization is outperforming its peers.

Here's a reassuring data point: 83% of employees agree or strongly agree that their organization's culture is important to senior leadership. Fortunately, nearly all business leaders agree with 97% indicating that their organization's culture is a top priority for their senior leadership. At the same time, 96% also indicate that for their organization to succeed, their culture must evolve over the next three years.

This is why it is so critical for your organization to support a culture that differentiates you through its authenticity and in how it reflects your mission, purpose and values — a culture that's coherent with the organization's brand identity and fosters the adoption of AI skills. Crucially, it's an enabler and driver of your business strategy. When it does, it can play a meaningful role in helping you become more of a talent magnet and talent factory.

When you're in talent factory mode, you want to fully unlock your employees' potential, help them grow and, in turn, grow your business. You need a culture that enables, reinforces and rewards the behaviors you need the most. To be a talent factory means creating an environment where people are encouraged and empowered through opportunities to develop new skills and capabilities, fully use their skills on the job, find purpose and meaning in their work and advance their careers inside your four walls.

Strengthening and aligning culture requires dialogue between the workforce and its business leaders, dialogue that's ongoing and in which employees feel seen and heard. When that's the case, employees feel a part of your culture and a part of your organization's future. They feel they have a stake in it. (Given that 76% of employees agree that their company leaders take action based on insights from employee feedback, it's ironic that 16% of employees say that their company doesn't conduct surveys to gather employee feedback, and 11% say their company conducts them "very infrequently.")

An interesting example of the power of dialogue and listening to build and sustain company culture comes from one hospitality company. The pandemic devastated the hospitality industry. In turn, this company's "culture of care" needed serious attention. To that end, it made a commitment to continuously cultivate a workplace where people feel they matter. Since employee needs and preferences are constantly changing, they identified a need to gather feedback from employees in a more agile and frequent way, designing a continuous listening strategy that supports leaders with real-time data and employee feedback on topics most relevant to them. Since implementation, this company has seen a 43% increase in the number of employees who say they've seen meaningful changes and actions resulting from their feedback in previous surveys. By listening and acting on what they heard and using data to make sure they're talking with employees about topics that are meaningful to them, the company's leaders are actually doing more than reviving its culture — they're revitalizing it.

If you're in talent magnet mode, your cultural focus should be to identify those aspects of culture that energize your employees (and potential employees) most, and that drive engagement and loyalty to the organization. They should be true to who you are, support your mission, underscore your purpose and, crucially, be a part of and drive your business strategy. That not only means confirming that your internal communications are robust, consistent, coherent and (especially) authentic to who you are, but that what's being "advertised" externally about your company culture is as well, so that potential job candidates can better understand the benefits of joining your organization. That can be a competitive advantage and an important one for talent magnets. Employees who believe their company's distinctive culture is a source of competitive advantage are almost twice as likely (1.8) to recommend it to a close friend or relative.

But, when your external communications don't sync with the experience of your employees internally, that can send a negative signal to prospective employees. Consider many consumer brands that have edgy or hip external images, but where the reality for employees is long hours, potentially toxic work environments and poor pay. The talent you need may lose interest and drift to organizations they perceive as more authentic. And those who do join you are bound to be disappointed, less engaged and less committed to their role. You drive up the bounce rate in new employee turnover (when people join a company only to leave within a few months). It's a lose-lose situation. To attract the talent you need, to be the magnet you want to be, you need a culture that is coherent and supportive of the employee experience you're trying to offer.

Also be mindful that your organization may not be able to deliver on all the latest and greatest employee preference trends. That's OK — you don't need to copy from other companies that seem to have a lock on being a talent magnet. Each organization has a unique combination of strategic and operating priorities that form its "way to play" in the market; the culture should be aligned to and enable meeting those goals. Start by focusing on the culture and behaviors you need to drive strategy and performance, then take stock of which aspects of that culture are most energizing to people. You can increase your strengths and mitigate frustrations by being honest about what is unique and realistic about your culture and how it helps you attract talent.

Take Martin Guitars, which has been making musical instruments since 1833. To attract the next generation of talent and specialized skills — a classic talent magnet position — the company realized it needed to double down on its external brand story visibility. A relaunched brand focused on "Unleashing Your Inner Artist Within" combined the opportunity to write the next chapter for a 190-year-old company, driving significant impact and enabling new hires, setting itself up for a bright future. Ultimately, to strengthen its talent factory side, Martin is also moving away from a one-size-fits-all approach to employee benefits to a more flexible package to better meet today's diverse and multigenerational workforce, an example of how the brand and total rewards levers amplify each other.

Whichever phase you're leaning into, take a hard, data-based look at the perceptions of your company, both as a corporate entity and at the brand level. If you like what you see, make sure to leverage those strengths in recruiting and attraction. If you uncover discontent, disconnect or disinformation, however, understand how these negative sentiments may change how recruiters approach potential talent — and how readily potential talent will be open to your recruiters in the first place.

Right now

Whether your business strategy calls for you to emphasize being a talent magnet or a talent factory, here are three actions you can take now and over the next three years when you use one of the levers described above, the result can help your organization move in the right direction.

1 Figure out where you are in the factory-magnet mix and the degree to which that aligns to your talent and business strategy (or where it may need to be adjusted). Remember, some parts of your organization may lean more toward factory while others may require more of a magnet approach.

2 Look across the levers and determine which are most important to your organization in terms of talent strategy, such as total rewards, employee preferences and flexibility.

3 Be aware that the degree to which you need to dial up or down being a talent factory or talent magnet will change over time, so regularly reevaluate what you need to enhance or deprioritize so that you continue to align with your business conditions and strategy.

Signal 2

Devising a location strategy that appreciates over time

Return-to-office mandates haven’t worked. What will?

With on-site, field, hybrid and remote work modalities, organizations can be everywhere and anywhere at once. Sounds nice, but being all over the map comes at a price. That’s why creating a location strategy that takes into account where you are today and where it can benefit you to be in the future is so crucial. Talent. Taxes. Connectivity. Culture. Community. Diversity. These and more contribute to the levers you can use to develop a cost-conscious location strategy that will establish you’re consistently where you ought to be.

It used to be the norm that knowledge and office workers only occasionally worked at home — with their manager's permission. The days of everyone going into the office five days a week ended in March 2020.

Until fairly recently, many companies had real estate departments that managed their holdings, investments and leases. But hardly any had a dedicated **location strategy** that took a broader view of location as part of a larger workforce strategy, which itself was part of a holistic *corporate* strategy. It just wasn't what business leaders were thinking about. They didn't have to.

Now they do. And there's a lot to consider to make sure your organization has a holistic location strategy that can, over the next three years, not only increase your cost efficiencies by taking into account physical locations, but *what* goes on inside them and *how*, and *who* has to be there *how often*, whether people have to be there *at all*. What benefit does a location strategy serve the organization and what benefit does it serve the workforce? How can organizations overcome the clash between employee preferences versus corporate imperatives?

Don't look back, look ahead

We've seen that return-to-office (RTO) mandates have, in many cases, failed. RTO momentum has tended to move by industry and geography. In New York City, for instance, big banks have employees in the office most days of the week, and the media industry has adopted a Tuesday-Wednesday-Thursday in-office standard. This has the benefit of reducing turnover, but it fails to create employee buy-in.

First and foremost, the business-as-usual paradigm to which some business leaders want to return doesn't exist anymore. In some cases, business leaders hadn't really thought through how employees might react to mandates. Employees didn't miss those long, stressful commutes, and they got used to the flexibility in scheduling, parenting, caregiving and so on that working remotely gave them. They were not keen on going into the office without a compelling reason. In many instances, after instituting a return-to-the-office mandate, financial services management teams received a daily report of the number of employees swiping their badges through office turnstiles, as if the number of employees was the point and not what those employees were doing once inside. As we've heard from multiple companies, some employees didn't even go inside. Instead, they swiped their badges through the turnstile, turned around and went home.

The Workforce Radar indicates that a location strategy is about more than mandates, more than mere geography. It's about what employees need to do their work and grow in their careers with you — collaboration, connectivity, communication and community. A location strategy needs to drive a dynamic corporate culture and increase employee engagement. It needs to take into account how your organization will attract and retain talent and how it can impact productivity. It can even be a tool in enabling you have access to a diverse workforce.

On top of it all are the tax implications and efficiencies attached to every decision you make (a consideration overlooked at your financial peril). It's complicated. It's multilayered. But it's also essential to get right.

It's clearly a big topic, and as you may have already read previously in this report, location is a key lever when determining where in the talent magnet-talent factory mix you want to be, as well as critical to the levers that contribute to an actionable workforce balance sheet (a signal about which you'll read later in this report, on page 31.)

While implementing a location strategy can take a long time — moving headquarters, closing or opening offices, redesigning workspaces … these things can take years — it's still urgent. If the pandemic taught us anything, it's that circumstances can change quickly (even overnight) and it's costly to be caught flatfooted, without a strategy that allows you to adapt.

A flexible location strategy is one with levers that can be readjusted not only depending on external circumstances but as the macroeconomic environment and your own business strategy evolves and as AI technology changes how work gets done by whom and where. Location is a top-tier signal in the process that can have far-reaching consequences, both good and bad. To confirm the former and prevent the latter, the issues discussed here deserve attention. These levers can be pulled to devise a flexible, sustainable and employee-first strategy that can improve and even reduce your organization's spending while improving your employees' work experience.

Lever 1: The right place at the right time for all the right reasons

What we call work modality — working in person, in the field, hybrid or remotely — and the physical location of the office space you need are inextricably linked, almost impossible to separate. That's because the modality impacts the choice of location and the choice of the location impacts modality. You can't consider one without the other in making an informed decision. Going fully remote means your office space needs — assuming you still have them — will impact a location strategy far differently than if you decide to be 100% in-office or hybrid, for all or part of your workforce.

Modality may not be a new topic, but it remains a highly relevant and essential part of creating a location strategy. It may not have been discussed a lot in conference rooms and in the media recently, but it hasn't gone away because organizations are still trying to determine what works for them and their employees. In addition, work modality hasn't necessarily been discussed in the context of a dedicated location strategy.

No matter how this lever influences your location strategy — no matter the choices you make or where you land — those decisions will have tax implications that further complicate and impact your location strategy. For our purposes here, cost includes the labor costs associated with your selected geography. If you're in a city with a lower cost of living, you can typically afford to pay less, sometimes much less, for talent. It also influences your real estate and facility maintenance expenses. (It doesn't, however, include the tax component, a second lever to your location strategy, which we'll discuss in greater detail next.)

Ultimately, there are interdependent dimensions you need to balance.

1

Skill availability and geography
Having workspaces available in places where the talent you need lives (without overspending, given the cost of real estate or compensation in that location)

If your business relies on creatives such as art directors, graphic or product designers, UX designers, copywriters, multimedia artists or animators, you may want to be located in creative hubs like New York City, San Francisco or Austin, Texas, so that you have access to the specific talent you need. If you're a technology organization, you may want to be in Silicon Valley for the same reason.

But, these large, often high-tax urban areas are also among the most expensive in which to both pay talent and have office space. That will impact the amount of space you need and the dollars you want to spend on it. It's a conundrum that may require you to rethink the mix of who's working where and when. Under these circumstances, your strategy might call for less space, so that you can afford to be in a location where only the necessary talent lives, driving a hybrid way of working.

2

Collaboration and learning
Having enough workspace for groups of people to co-locate and accelerate skill building, networking, collaboration and productivity

The pandemic, when many people worked remotely, highlighted the loss of collaboration and learning opportunities, as well as their benefits to both your workforce and your business. And employees feel it, too.

- 87% of employees say the office is important for collaborating with team members and for building relationships.
- 36% of employees are struggling to establish or expand their professional network at their company in remote or hybrid work environments.
- The least experienced workers are more likely to feel less productive while working remotely (34% versus 23%). They're more likely to value meeting with managers or company training programs than their more experienced colleagues.

Given all this, now is the time to take account of your employees' needs. Especially for people in the beginning of their careers — but, really, for everyone — collaborating with peers and learning and development programs are critical. It is through these learning and teaming opportunities that people can figure out how to work and what it takes to get the job done. It's through them that people get to know and trust one another. It's through them that individuals get the visibility they need to create dynamic work relationships. Finally, it's through them that people develop their skills and talents and move up through your organization.

Having the space necessary for these activities — conference rooms, open spaces and learning centers, for example — will impact your location choices, as well (which, in turn, impact work modality). Without enough space for these activities, employees also may be missing out on opportunities to work shoulder-to-shoulder with more senior people, and have fewer mentorship and apprenticeship opportunities with them, as well. This not only could leave a whole swath of employees without the experience they need to grow in their careers but could impact your organization's talent base and future.

3

Empowerment

Having a flexible approach to when employees use workspaces (versus other spaces) to strengthen culture and employee satisfaction

We work with a number of companies that hired employees remotely during the pandemic only to find that those employees feel disenfranchised, disconnected from the company culture. But the idea that being on-site all day every day is necessary to establish and sustain a strong culture is a myth. Don't be afraid to offer flexible options for fear of diminishing it. In fact, while many companies are pushing for return to office, it turns out that hybrid workers demonstrate the highest levels of satisfaction. Seventy-four percent are engaged and 76% feel like they belong, compared to fully remote (63% and 68%, respectively) and fully on-site employees (72% and 74%, respectively). But wait, it gets even better: 83% of hybrid employees feel the most appropriately compensated (while 75% of full-time on-site employees feel least appropriately compensated, with those who work remotely, at, 77%, fall in between). The kicker? Ninety percent of hybrid employees say that the culture at their companies promotes community, collaboration, inclusion and belonging.

We're not suggesting you absolutely, positively should have a hybrid workforce — it may not be possible for your business. But we are suggesting that you shouldn't assume that your culture can't withstand one. Given these positive outcomes, your organization's culture is not negatively impacted when you have a hybrid workforce. Now is the time to devise a plan that marries the desired behaviors of your workforce with the physical space you offer them to work in.

Lever 2: Take tax efficiency and optimization into account

No matter what choice you make about who should come to work when and where that work will take place, it has property and state employment tax implications that will be a part of your calculations and location strategy. It's a balancing act.

Your business may require you to be in a high-tax location, like San Francisco or New York City, for instance, to be closer to customers. In turn, that may motivate you to use less space to save money, which will dictate whether and how many of your teams are on-site, hybrid or remote. Or it may require you to look for savings elsewhere along your workforce balance sheet (see page 31). Or you may have the option to be in a lower-tax location, such as Florida.

The pandemic really heightened this issue for many businesses, especially those that had allowed their workforce to work from anywhere, whether that was from home, a shack on the beach or a temporary rental in Santa Fe. The result has become all too evident for some organizations. It's not only about the tax costs and exposures you may face, but also the complexity and compliance efforts you may have to deal with.

Before, if your organization was considering opening an office in, say, California, you would do your due diligence to understand the tax implications there and weigh it against your budget, business needs and business strategy. Now, however, the results of work-from-anywhere policies may add to your expenses. That's because when one person works from home in a locality where you don't already do business, you may unwittingly be impacted by the tax implications of that state. (This may also impact work modality and location, as you may decide that, due to the tax implications of a location or situation, fully remote or even hybrid is no longer the right option for your business.) The administrative burden created by this remote work on corporations can add up, as companies struggle to keep track of temporary presence rules, state and local business activity taxes, reciprocity agreements and other potential tax liabilities.

None of this is to suggest you shouldn't have remote workers, just that it's an issue to be considered. After all, it can cut both ways. Remote workers may have negative tax implications for your organization, but they also may allow you to have less office space or source talent from cheaper locales, offsetting those higher taxes.

Over the next three years, senior business leaders should explore these issues and try to rationalize modality and location to ensure those situations and decisions continue to make sense.

Employee location selection can be affected by the complexity and cost of state and local taxation, as well. With the rise in remote work, we are seeing talent flee high-personal income tax locations such as California and New York and relocate to more tax-friendly states such as Florida, Nevada and Texas. To maintain the talent pipeline and recruit the top resources, employers are having to make decisions around expanding hiring into new states and allowing talent to relocate, while at the same time managing an ever-growing tax footprint and the added compliance challenges and complexities this can cause. Given these changes, we're seeing CHROs and CFOs collaborate on various location-selection issues to determine potential pros and cons of hiring in new taxing jurisdictions, developing fit-for-purpose remote work programs or relocating existing workforces. This is an action that Workforce Radar sees as critical today and in alignment with the location strategy approach overall.

There are a variety of employment tax issues to consider.

Credits and incentives

Will state and local government tax authorities offer tax incentives for new jobs or headcount expansion in these new locations? Some states have specific programs that incentivize companies to open offices or expand headcount in existing locations. These opportunities are worth analyzing as part of your location strategy, since you may realize significant benefits when you do.

- The Georgia Jobs Tax Credit, for example, can provide up to $4,000 per year for five years for every job in exchange for business creating an agreed upon number of jobs in the state. In some situations, this credit can be applied against the employer's withholding tax liability.

- Similarly, the Missouri Works Program provides a tax credit of up to 7% of new payroll or a credit against withholding tax liability depending on the job type, location and project size for up to six years in specific parts of the state.

State payroll tax costs and compliance efficiency

Depending on state tax regulations, certain states have lower tax costs that can impact both the employee and the employer. These taxes consist of state income tax levies withheld from an employee's wages as well as state unemployment tax, paid family leave programs and state disability taxes, all of which are often funded through mandatory contributions by the employer.

- State income tax withholding rates vary by state, with states such as New York and California assessing tax rates of more than 10% on high earners, while states such as Texas, Florida and Nevada don't have a state income tax at all. Due to this variance, we're seeing talent flock to those states and a reluctance to relocate to higher-tax locations, even when a good job offer comes along (their own location strategy may be "thanks but no thanks"). This may require talent managers to look for new office locations to reach this talent, or to develop more robust remote work programs and policies.

- Similar to state income tax rates, state unemployment tax costs and employer-funded state disability and paid family leave programs vary by state. Every state is required by federal law to assess unemployment tax on employers in the state. However, some states provide richer unemployment benefits to terminated workers, which results in higher unemployment taxes charged to employers to cover those benefits. The 2024 maximum weekly unemployment benefits for an individual in Washington State is $1,079, for instance, versus a maximum weekly benefit of $577 in Texas. Washington has a taxable wage base limit of $68,500 and a maximum tax rate of 6.02% for 2024 while Texas has a taxable wage base limit of $9,000 and a maximum tax rate of 6.25% for 2024. So an employer assigned the maximum tax rate in both states for 2024 would pay $4,123.70 per employee in Washington, but only $562.50 per employee in Texas.

- Only a few states levy taxes on employers to cover state-administered disability and paid family leave benefits. Other states don't provide these state programs or pass these costs on to employers through tax assessments. When determining employee locations, analyze the cost factor and compliance responsibilities resulting from having employees in these jurisdictions with richer social benefits.

Local, county and city payroll tax cost
Some states have granted their counties, school districts and municipalities the ability to assess a local payroll tax on employees either working or residing in that locality. Depending on the locality, these taxes may be withheld from the employee or may be assessed to the employer based on wages paid in that locale or assessed based on the number of employees in the local jurisdiction. To make matters more complex, often tax payments and filings are made directly to the local jurisdiction, which can increase the number of tax filings administered by companies. Considering the local tax costs and compliance efforts when devising a location strategy is another factor when evaluating potential labor costs.

One recent example of a complex payroll tax situation is New York State's convenience of employer regulation. Starting in 2021, we began to see high-income earners in the financial services and asset management businesses enter into remote work arrangements or relocate offices to South Florida. This began a talent migration of high-net-worth individuals out of the traditional finance capital of New York to cities like Miami, Palm Beach and Fort Lauderdale. While some of this mobility was driven by pandemic-related issues, personal income tax savings were obviously a significant influencer considering that New York State and New York City assess a maximum tax rate of more than 14% on subject compensation.

In response to this increase in remote workers and relocations out of New York, the state is attempting to claw back these lost income tax revenues by enforcing regulations that can require employees working outside the state but performing services for New York-based employers to continue to pay New York income tax on their earnings. It's known as the "convenience of the employer" rule. It's controversial because there's potential for double taxation on the same income when employees are taxed both in the work location and in New York, and complicates tax compliance for employees who may be required to file multiple tax returns. Helping to prevent employees from being saddled with unnecessary penalties is further motivation to be thoughtful about location strategy.

Right now

No matter where you locate your organization, no matter where your employees work or if they're on-site, remote or hybrid, here are some actions you can take to confirm that your location strategy and your business strategy are in sync.

1 Ask yourself, about the workforce pain points you're experiencing and how they relate to location, such as cost and access to skills and talent?

2 Create or update your location strategy to align it to the business outcomes you need to achieve. Determine how space will be used to strengthen desired behaviors. Think long-term. It may take a while to move the needle on changing your geographic footprint.

3 Consider tax optimization (including liabilities and credits) and understand the latest regulations and compliance on a local, state and federal level. Partner with CFOs to determine how to better improve tax efficiencies as an employer and what efficiencies can be gained by workers.

Signal 3

The intelligent enterprise

Transitioning your organization to new business models begins with understanding your existing operating model, your underlying technology and your company's ambitions.

Everyone's talking about GenAI. The technology is already fundamentally changing how work gets done and by whom at every level of the business. But before you can use it to transform your business and workforce experience, there are a few conversations you need to have first. Are you looking at AI holistically as it becomes a part of how work is done, how you manage your workforce and how your workforce learns and upskills? Do you have the basics down to support new tools and new ways of working — a robust tech stack? The right employee-facing technology? Human capital management (HCM), cloud and payroll technologies? Once you do, using levers including GenAI can help modernize, improve and accelerate your organization's efficiency, productivity, retention, upskilling and more.

AI will affect different businesses differently — and different parts of businesses differently. Understanding how AI impacts your business can help you design a core business strategy that naturally considers AI at each stage, allowing you to make better long-term investments.

Companies may reap short-term rewards from transferring time-consuming, highly manual tasks like data entry from entry-level positions to automated processes, but in doing so they may give up the long-term growth that comes from investing in training tomorrow's leaders. You need to balance the impact of automations and agentic workflows where human and AI agents work together. Consider how you can use some of the recovered time to build the critical thinking skills and experience your entry-level workers will need to help run and grow the organization in the future.

These changes won't be confined to entry-level jobs. AI is changing how almost everyone — especially those at the highest levels — does their jobs. Whether in the C-suite or on the shop floor, people who know how to use AI will likely outcompete those who don't. There's long been talk about the need for AI skills in the workforce, and it's true. Employees need skills, guardrails and incentives to use AI responsibly. But managers face even bigger challenges. Besides learning how to use AI responsibly, middle managers will need skills to oversee and assess teams in which AI agents do much of the work hand-in-digital hand with their human counterparts. Functional leaders will have to understand how AI don't just augment processes but replace them. The C-suite will have to take the lead on AI-native operations and business models. Few leaders today have both organizational and AI knowledge — and closing this gap will be critical.

HR functions and those who work in them have not always gotten the results they expect when introducing new systems into day-to-day operations, whether in productivity, engagement, speed or myriad other improvements. They just haven't paid off. They haven't helped the function make as much progress as they had hoped in modernizing its capabilities or accelerating change (either within the function or across the organization). It's frustrating.

That unfortunate reality persists today and it's crucial to address these issues as your company invests in AI. Among the biggest challenges executives face with implementing new technology:

88% Achieving measurable value from investments in new tech

85% Updating their operating model to support their new vision

84% Training the workforce

In our discussions with CHROs, many tell us that they want to fund new investments in AI and employee experience technology but find their foundational systems aren't a good fit and have issues that would need to be dealt with first. No future technology can benefit your organization if the technology you already have and the investments you've already made are underperforming.

Business leaders, and especially CHROs, are wondering what to do, where to start and how to start. Critically, they're wondering where to place their investments in order to get a high return.

Lever 1: Table stakes

First things first: You can't work in a silo. "Table stakes" today means understanding and improving your company's foundational technologies for performance now, as well as your company's broader investments and plans for AI in the future. Once you have a clear eye on both, you can start looking at your existing tech stack and its AI integration readiness, which we'll discuss in the next lever.

To start, get your foundational data strategy in place, along with legacy technologies such as HCM cloud and payroll technologies like Workday, Oracle, SAP Success Factors, ADP or Dayforce. Then, make sure any bolt-ons and integrations are functioning as designed. (An added bonus: Many platforms already have GenAI capabilities built into their frameworks, providing an easy entry point.)

As noted, even among those who have made the investment in this **foundational technology**, many are not getting the ROI they could be. If this is you, it's way past time to reexamine your HR tech stack. You'll want to confirm that:

- Components are configured properly based on your needs and industry
- The HCM cloud tech stack you have has evolved over time as both your needs and the technology available have evolved
- It has built-in analytics capabilities to monitor its performance
- Your job and skills data are accurate and enable automation and desired functionality

These specifications aren't a given. In fact, when asked about the top challenges faced when using current HR technology specifically, the No. 1 challenge cited by 39% of HR leaders was limited customization. But this data point may reflect a misplaced concern about the ability to customize HR technology.

Instead of customizing technology to fit your organization's existing processes and procedures, HR leaders should consider reengineering internal processes that might be inefficient — and potentially the underlying reason for needing to customize technology in the first place. Think about how AI agents and integrated AI functionality can help you reap the benefits of using off-the-shelf technology, lowering implementation costs and avoiding expensive, bespoke AI solutions. Also, consider if and how you can benefit from moving your systems from on-premises servers to cloud with its more easily updated capabilities, reduced costs and so on.

Employee-facing technology is equally important and foundational. Your employees care about the quality and relevance of the technology they have access to at work. Twenty-eight percent indicate the quality of technology prevents them from completing their work effectively, while 72% agree the quality of technology allows them to complete their work effectively. GenAI-enabled applications and features such as Microsoft's Copilot, Google's Gemini and PwC's own Astro are becoming essential. Without them, employees are less productive and less engaged. This can damage your company's reputation and attractiveness and, in turn, employee retention and recruiting. How do you stand out from your competitors and deliver a better workforce experience with technology?

Over the coming three years, as organizations position themselves to drive their business strategy, these differentiators can help them move forward more quickly: GenAI and AI-powered workflows, and talent intelligence.

Lever 2: Differentiators, part 1 — GenAI and the future of work

Sixty-three percent of business leaders say they've already implemented GenAI at their company. It impacts everything: the work you do, who is doing it, where it's done, how fast it's done and, most of all, your bottom line. Ninety-one percent of HR leaders also say they've achieved or expect to achieve an enhanced employee experience by adopting GenAI, but we think this shows siloed overconfidence. Not only have companies barely scratched the surface of what AI can do, only 50% of business leaders — who have broader insight into their company's overall AI plans — expect GenAI to have a high impact on enhancing the employee experience anytime soon.

A good illustration of what an enhanced employee experience looks like is that, prior to the introduction of **GenAI**, HR typically maintained a skills database that was basically a static inventory of skills across the organization. It was useful but limited. These databases become actionable with the introduction of GenAI tools, which allow the rapid output of analytics breaking down employee skills, proficiencies, training and experiences, allowing needed skills and the individuals with them to be easily identified as the company and its employees grow.

Introducing GenAI to your workforce can drive down costs and enhance productivity. But GenAI isn't only about driving down costs. In fact, among business leaders:

GenAI is expected to have significant impacts across business functions

Q: Please rate the anticipated impacts of GenAI you expect to experience in the next 12 months
[Showing responses for "High Impact"]
PwC Workforce Radar 2024, n=1009 Business Leaders

If your company weaves GenAI into your business across functions, it can also enrich your talent magnet and talent factory standings, impact your workforce balance sheet and maybe even cut location costs by bringing deep new insights into the type of talent you have, the type you'll need over the coming three years and, in turn, the type and amount of office space you need.

Of the 59% of HR leaders whose functions have implemented GenAI, 72% tell us that it's has been a critical factor in enhancing the HR function's capabilities and services for employees and the business. Sixty-seven percent indicate that it has improved the quality of insights in making workforce decisions and 56% say that it has created more meaningful roles for their HR professionals. Perhaps more importantly, however, HR leaders who said they've implemented GenAI were more likely to report desirable business outcomes, including higher profitability, faster revenue growth, cost savings and greater employee productivity. Sixty-six percent of HR leaders at very profitable organizations also report that GenAI has been a critical factor in improving the quality of insights used to make workforce decisions. In other words, HR is on board.

Because of HR's function, roles and responsibilities, and due to its key position within an organization, it will be a key player in driving a company's new or refined strategy and ways of working over the next three years. Your workers should trust that they won't be displaced by AI — that they have a pivotal and enduring role in new AI-powered ways of working. Roughly 34% of business leaders and HR leaders cite "lack of trust in GenAI by internal stakeholders" as a challenge their organization faces in using GenAI, and the workforce concurs. Employees working in customer service and legal functions have the greatest negative sentiment toward GenAI, and women tend to trust it less than men as do employees 60 and older — especially concerning with employees remaining in the workforce longer than ever before. Solving this distrust is a big challenge, but one that should be addressed.

Another challenge is pressing for full adoption to confirm that the entire workforce — individual contributors and management, men and women, young and old — embraces it so the organization can increase its value, empowering and engaging the workforce to help reinvent processes and ways of working.

- Only 32% of female employees have adopted GenAI into their work tasks, compared to 57% of male employees.
- Only 20% of individual contributors have adopted GenAI into their work tasks, compared to more than two-thirds of upper management. Thirty-six percent of individual contributors also say they haven't adopted GenAI into their work at all because their employer doesn't provide them access.
- Almost 20% of employees older than 60 have not adopted GenAI and do not have any interest in using it in their work tasks.

Without establishing that the entire workforce understands the advantages of GenAI and has the chance to integrate it into their daily work tasks, companies will fall short of realizing the anticipated return on their investment.

By virtue of its own experience with GenAI and insights into the potential for GenAI to create change within its own function, HR is in the key position to inspire others across the organization to adopt it and, consequently, improve workforce transformation.

Your entire workforce needs to integrate AI tools in day-to-day use, not just certain power users, and think about new ways of working.

But it's not only HR's responsibility — far from it. With AI being integrated across the business, now is the time for CHROs to partner with CIOs, CTOs and business unit leaders to create genuine partnership. New human skills will need to be identified and fostered to make efficient use of and interact with automations, including the use of AI agents, and new technical skills will also be needed. The most impactful AI use cases don't just deliver quick value. They can be rapidly scaled across your company. Applying a GenAI model to perform "deep retrieval" — searching for specific information within data or documents, for instance, — might help with HR policy communications, but the same solution could then be used to perform the same task using contracts, financial reports, résumés, tax documents and more.

Our perspective: Emerging areas for Leading Digital HR leaders to lean-in

Champion

Own workforce transformation enabled by GenAI Strategy

Kick-start your journey by defining HR´s GenAI strategy aligned with overall business strategy.

Partner with the business to identify opportunities to supplement labor with AI.

Facilitate connection of HR data to unlock AI opportunities and insights.

Coach

Upskill the Workforce

Upskill the organization on what AI and Generative AI are.

Train users on the GenAI tools as they are selected and released across the company.

Update L&D to incorporate not only these AI skills but also to focus on the human skills that are increasingly needed.

Customer

Embed GenAI use cases into HR services and employee experience solutions

Take a human-centered approach to selecting and implementing use cases across key talent practices and HRIS platforms.

Focus on driving next-level employee experience during moments that matter.

Challenger

Facilitate Responsible AI

Understand the risks and the regulatory landscape around AI.

Help the business understand challenges such as algorithmic bias.

Encourage responsible use of new technologies and work with stakeholders to implement appropriate controls.

Specifically in the HR function, teams are using GenAI in talent sourcing and talent identification. Over the next three years, HR leaders should be looking at how to expand the use of GenAI not only within their own function but in other areas of their business.

Early adopters (which you should be) are expanding GenAI's role in new and high-potential directions, including role design, productivity and workforce impacts. Forward-looking HR functions are pushing boundaries, looking closely at what AI can help them do in new ways and what new problems they can solve with these tools.

Uses such as these — whether measurable or still investigational — set organizations apart, making them more attractive places to work, both to those already there as well as future employees. Again, people want to work at forward-looking organizations.

GenAI's beginning to create radical change in how people work, even where they work. It provides new insights into where organizations are doing well and where they're falling short. Over the next three years, the pace of that change will only accelerate, and the impact of that change will continue to grow. Organizations won't just be using GenAI to advance their business strategies, but their business strategies will be driven by it.

Lever 3: Differentiators, part 2 — get smart about talent intelligence

Talent intelligence is the convergence of workforce planning and data analysis. Talent intelligence technologies use GenAI and other capabilities to help HR move from being a tactic-driven function to a more strategy-driven function, enabled by dynamic, up-to-the-minute data-driven insights. Still, fewer than 40% of HR leaders are prioritizing GenAI in more high-impact and complex HR areas like talent intelligence.

Take Eightfold AI, for example. Reflecting the changing skills and roles brought about by GenAI in the labor market itself, Eightfold uses AI to analyze the data of more than a billion anonymized and aggregated career trajectories and more than a million skills globally. The talent and skills insights derived from this cache of data, together with an organization's HR systems data and user interactions, among many other capabilities, organizes and categorizes skills according to their characteristics and relationships. Eightfold users can apply this skills framework to make better, more informed strategic decisions on workforce planning, recruiting and upskilling.

Chano Fernandez, Eightfold AI co-CEO, says the company is using the technology itself to pinpoint "what makes people successful in particular roles and what are right sets of skills that will make them successful in the company." This allows them to search for talent in places not tapped before. For example, they discovered that former professors have great potential to be successful in pre-sales roles.

Eightfold worked with software and gaming company Activision Blizzard when it realized just how much time sourcing talent took (too much). Activision wasn't using its talent network effectively because, it determined, there was no single source of information. The data was disjointed — in fact, it used three customer relationship management (CRM) tools, and none of them were connected to an applicant tracking system (ATS). Using Eightfold AI-driven technology, the system became indexable, searchable and more nuanced. For example, HR staff could see what specifically caused a candidate to turn down a job offer and learn from this insight. Activision's recruiting team has since become more efficient, hiring 52% more positions without expanding its sourcing team. It also phased out outdated CRMs, events tools and profile-updating tools.

The value of talent intelligence is that it enables you to make data-based decisions about talent, as well as automate, accelerate and create objectivity within talent processes that have long been manual and involved a lot of guesswork. Companies that deploy technology like this can rapidly identify and evaluate prospective hires, help employees map their skills to available opportunities within the company (or outside), and deliver HR a continuous feed of information of insights into talent. What skillsets are in the highest demand? Where is there turnover risk? How does the organization's size and shape compare to industry benchmarks? This is the data that CHROs and business leaders will need to drive business outcomes and set the organization up for growth as the economy continues to strengthen.

While Eightfold isn't the only talent intelligence platform, its dramatic growth demonstrates the significance of this emerging industry. More importantly, it suggests its growing use by organizations like yours. If yours isn't incorporating this sort of data, you're potentially creating more obstacles to growing your organization with the talent and skills it needs to compete today. Moreover, for organizations looking to amp up their status as a talent factory, talent intelligence data can help it identify employees across its workforce that have the potential and promise to grow in their career and value to the company.

Lever 4: Toss your change playbook

New and foundational technologies need to be integrated throughout your function and your organization writ large, but that has to start somewhere. Look at your company. Who's already using them and who's not? How are people being exposed to them? Trained on them? Helped to embrace change instead of fearing and resisting it?

Perhaps counterintuitively, because some might assume younger people would be interested in GenAI more than older generations, increased adoption of GenAI into work tasks actually corelates with job level, not age.

AI adoption correlates with seniority

20% Individual contributors and employees who do not have supervisor or management responsibilities

43% Managers and supervisors

76% Directors

84% VPs

Q: Which of the following best describes your adoption of GenAI in your day-to-day work? (Responses to "I have fully adopted GenAI (e.g., use it regularly in my work tasks)" and "I have partially adopted GenAI (e.g., use it occasionally in my work tasks)".
Source: PwC Workforce Radar 2024; base: 18,237

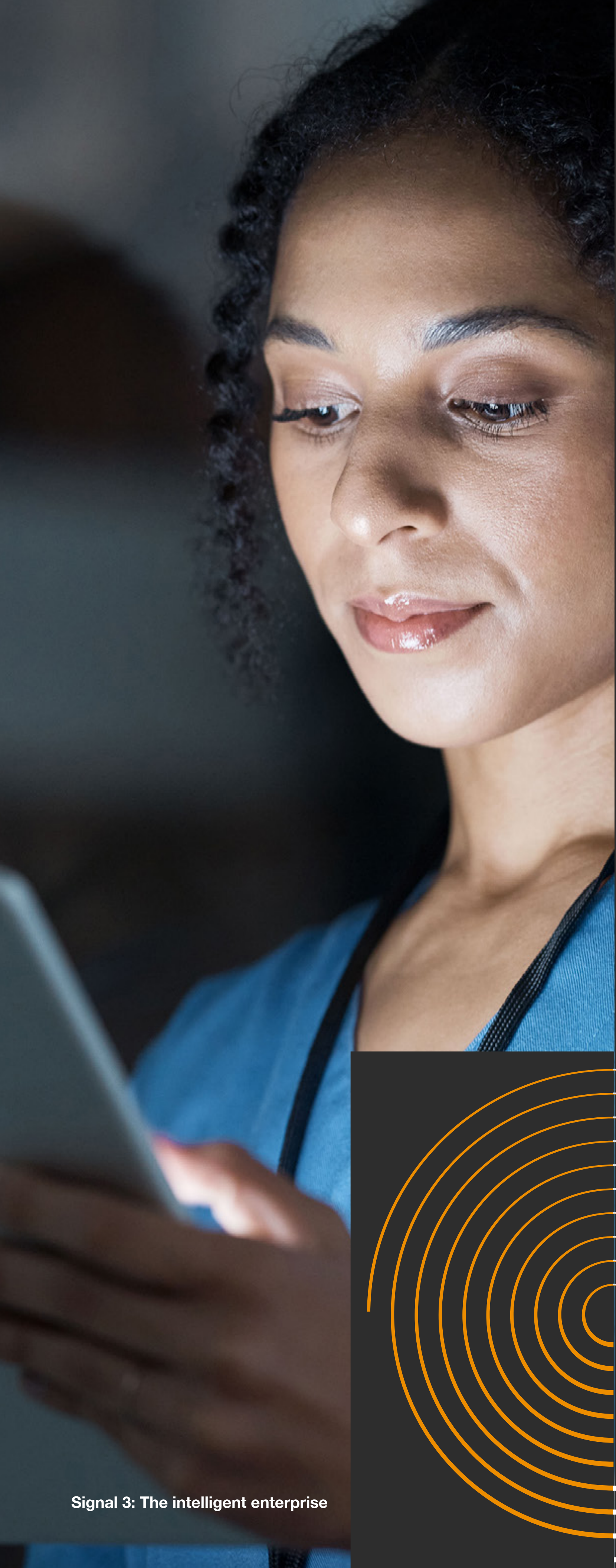
Interestingly, 36% of individual contributors say they haven't adopted GenAI into their work at all because their employer simply doesn't provide it. An additional 18% whose organizations have provided opportunities to use GenAI say they haven't adopted and that they have no interest in using it in their work. That's problematic, considering there's a lot more opportunity to benefit from AI-assisted tasks at the individual contributor level. Not only are these employees missing out on ways to enhance their own work experience, but the companies that employ them are missing out on opportunities, including a more satisfied workforce and savings that come along with that (higher retention and less onboarding, for example), as well as savings related to greater productivity and efficiency.

As new and different as GenAI is in your organization, the answers to the rest of those questions need a new and different sort of change playbook than used in other circumstances. The issues are totally new, as will be their solutions — a new approach to change management. In fact, 41% of business leaders and HR leaders say that "workforce" (e.g., training, culture, perception of potential job loss or change in the nature of work, resistance to use) is among the top five challenges their organizations face in using GenAI. Roughly 33% of human resource leaders also cite "lack of trust" in GenAI by internal stakeholders such as leadership and employees as an additional challenge their organization faces regarding the use of GenAI.

A better way to improve GenAI across your workforce right now and over the next three years will be to encourage users to experiment with it, to inform the business of the more effective ways it can use the technology to drive productivity and performance. Make sure you're reaching a broad, diverse audience within your organization, as well, to open new opportunities to more people. Let users iterate and evolve GenAI in your organization. Let them get comfortable with it themselves and help their teammates get comfortable with it. Encourage adoption of GenAI to spread, supported by training and development opportunities, gamification, culture reinforcement and internal communications that share successes and examples.

PwC's internal GenAI tool, ChatPwC, for instance, is just one of the powerful tools with which we equip our 75,000-person US workforce, which also benefits from our extensive, firmwide AI upskilling program, My AI. The program provides training in GenAI prompting, leadership in the age of GenAI, Responsible AI (a set of practices that can enable organizations to unlock AI's transformative potential while holistically addressing inherent risks) and more. Appealing online content, in-person training, hackathons and game show-style competitions have already encouraged 95% of PwC US employees to voluntarily take part in My AI. Our staff's enthusiasm for My AI has resulted in grassroots efforts such as prompting parties and brainstorming sessions to find new ways to use GenAI at work.

When you provide people with the latest technology tools, the skills and guardrails to use them responsibly and the power to innovate and reinvent how they get work done, the results can be transformative. PwC's AI factory operating model, for example, is designed to continually identify new use cases, set priorities and scale up patterns of deployment across multiple tasks and functions, and study the impact of productivity. It has enabled us to identify thousands of use cases and build hundreds of reusable GenAI solutions to accelerate how we can achieve scale and value quickly. Across the business, we've found that people who regularly use the tools demonstrate productivity gains of 20% to 40%. With time saved, they're able to focus on more strategic work and bring more value to our clients.



Right now

Technology evolves quickly, and this pace will only accelerate as AI yields newer, more powerful tools. Your employees expect your offerings to have as big an impact driving your business strategy as they do on their work experience. Here are three actions you can take to make sure that it does.

1. Determine how your existing tech stack aligns to the worker experience you want in addition to whether it enables increased efficiency in their work. Is it, or can it be, enabled through GenAI? Decide which priorities of your workforce can enhance the employee experience and let that guide your tech roadmap.

2. If you've implemented a cloud HCM product in the past five years, benchmark your current ROI and how it stacks up to what you expected. If you're falling short of expected results, it might be time to consider how newer tools and technology might streamline current strategies.

3. Reexamine how you introduce technology to the organization and focus on democratizing GenAI tools, personalized experiences and essential skills and behaviors to fuel adoption. Consider the sequencing of planned technology initiatives and prioritize examples of how GenAI has improved the work experience in a way your organization can absorb.

Signal 4

Empowering transformation with a workforce balance sheet

Spending your money wisely requires you to know exactly how you're spending it in the first place

You wouldn't run your business without a financial balance sheet — and you shouldn't run it without a workforce balance sheet, either. After all, beyond headcount and payroll, creating a compelling workforce experience that helps you retain and attract the talent you need costs a lot — from HR to rewards and benefits to taxes and more. Until you know the real bottom line, you can't use these levers to truly invest your money with intention or see where you can save money in one place to invest it somewhere else.

To make sure they're improving their workforce costs, organizations often focus on headcount reductions to the exclusion of other equally important considerations. That's a mistake. While headcount and capacity management are important, there are better levers that can be used. Even headcount itself is about more than just reducing payroll and benefit costs. After all, an indirect cost of reducing headcount is that as you dispose of talent, that talent (and all the knowledge and experience they gained while in your employ) goes to your competitors. Or you dispose of talent and then hire those same people back as often more expensive contract workers.

Yes, you want to balance spending on your workforce while getting as much as possible from your workforce. But there has to be equilibrium between the two. If you overspend on your workforce, that's no good. But if you *underspend* on your workforce, that's no good either. The important part about understanding the full workforce balance sheet is that where you spend might not truly be optimized.

Business leaders seem to understand this. How do we know? Because 40% of them are looking at doing a major reorganization of their operating model in the near term — the highest percentage in the four years we've asked the question. That indicates that more companies are moving beyond staff cuts and looking for ways to improve worker productivity instead.

If you're only looking at the HR function and worker headcount, and you're basing workforce optimization on that alone, you're getting a very limited perspective on where your workforce expenditures are going. To stay competitive today and moving forward, companies have to take a broader view of what workforce optimization means, how to achieve it and, crucially, how to shape it so it benefits your employees as much as it does you.

Follow the money

Business leaders need a holistic perspective on costs associated with workers, what we call a workforce balance sheet, that takes a financial balance sheet approach to the cost of all labor. It includes the total cost of the workforce - beyond HR alone - both direct and indirect.

Traditionally, many HR functions look solely at the direct costs of the HR function. This includes the salaries and benefits of employees aligned to your function, the costs of HR systems and technology and the costs charged back to HR, such as real estate facilities and IT costs. CHROs tell us that they're constantly asked to reduce headcount specifically related to the cost of HR.

However, a workforce balance sheet approach is much broader and encompasses the indirect costs associated with workforce productivity, engagement, development and other HR-related or influenced processes, as well.

This includes the cost of employee headcount throughout the organization (compensation and benefits, which may be influenced by your talent mix and where you find that talent); the efficiencies of HR-related processes such as hiring, onboarding and talent development; and the cost implications associated with providing a physical location for employees (such as taxes and real estate and facilities costs). A workforce balance sheet also includes cost savings associated with managing risks related to your workforce — misaligned incentives, cybersecurity and execution risk are examples of costs that can be extreme if not managed carefully.

The end goal is for the organization, with HR's help, to assemble as complete, holistic and actionable a workforce balance sheet as possible. It's an opportunity for the CHRO to be the hero in the board room, similar to how the CFO uses a financial balance sheet. It allows HR to proactively identify how the organization can increase free cash flow to drive bottom-line improvement and reallocate capital investment toward improved workforce experience with digital tools, GenAI, preferred benefits and more meaningful upskilling — ultimately driving productivity and engagement of the workforce.

In our research, senior leaders rarely grasp the total cost of their workforce and how, if they did, it could inform spending decisions across the organization. A workforce balance sheet will enable business leaders to spend less overall or spend in ways that would benefit them from tax, location cost and delivery perspectives, as much as it would benefit their employees.

The Workforce Radar's research indicates that companies will need to improve their workforce balance sheet, taking into account a broader set of metrics and behaviors far and above the cost of HR itself, so that business leaders can better understand where the organization's money is going and how it can truly improve that expenditure's impact on your business and employees.

A true exploration of the total cost of your workforce should consider a wide variety of costs. These levers can help build and dimensionalize your results.

Lever 1: How much does HR *really* cost?

Creating a workforce balance sheet that truly reflects the total cost of your workforce starts with understanding the **total cost of HR** itself, an effort that the HR function should view as an opportunity to generate real, measurable value for the organization. The total cost of HR is core to the creation of a workforce balance sheet.

Total cost of HR includes the direct costs of operating and delivering the HR function (including the salaries and benefits of employees supporting the HR function as well as the cost of HR systems and technology) and the costs charged back to HR, such as real estate and technology.

While the total cost of the HR function will likely represent a total dollar figure, many companies benchmark their costs by allocating the total cost of HR across the workforce. PwC Saratoga benchmarking finds the median US HR costs per employee to be $2,267 (HR costs per employee = direct HR costs and headcount). At the 75th percentile, organizations are spending $3,615 per employee on direct HR costs.

But that calculation's often incomplete. Only 43% of HR leaders say they use a cost-benefit analysis to evaluate the effectiveness of HR technology. That's understandable, if unfortunate, since they haven't been asked to measure many of their services beyond the basics (like the cost of over-payment pay and unused benefits costs going out the door).

But these basics no longer provide the depth and breadth of available information necessary for HR and other business leaders to make meaningful choices that can help their organization thrive in a quickly changing world. Examining HR's total cost as part of the workforce balance sheet process is an opportunity for HR to contemporize and expand its role, adding as much sustainable value to its own function as it does to the functioning of the organization itself. It will also be better for CHROs to have this at the ready, should economic conditions take a plunge in the next three years.

Lever 2: Optimizing payroll

An often-overlooked aspect of the cost of an organization's workforce is a global payroll strategy. Many large multinationals run payroll without a centralized governance model, using disparate technology architecture and multiple outsourcers with different contractual agreements. Local internal payroll resources perform similar processing activities, as well, leading to duplication across the IT and payroll global landscape.

ADP's Potential of Payroll in 2024 survey found that today, at the global level, payroll overall mean accuracy is only 78%. Given the employee experience and compliance impacts of inaccurate pay, organizations are beginning to rethink their strategy. Respondents indicated that payroll data is a major consideration in informing strategies around critical business areas, including cost management (49%), commercial and growth (45%), expansion (44%) and diversity equity and inclusion (42%).

In addition to reducing payroll errors globally, payroll optimization contributes to more informed strategic decisions backed by stronger and more accurate data insights. Further, implementing a centralized data architecture and operating model for payroll enables a standardized control framework and allows for better management of sensitive information.

Despite the criticality of this, many organizations continue to neglect focusing on improving the payroll function. ADP's survey indicates that less than half of (44%) say they have full visibility of payrolls across locations and only about half (52%) have global standard metrics for compliance. Consolidating providers instead of addressing isolated issues with outdated technology and country-specific delivery models can lead to efficiency gains by reducing integrations, centralizing resources and streamlining reporting and governance.

As organizations navigate the transition from on-premises to cloud-based solutions and strive to achieve cost savings and compliance, a global payroll delivery model may offer a solution. Conducting a global payroll operational review to include reviewing payroll anomalies like cost leakage or inaccuracies can help you identify opportunities to align your payroll function with your transformation goals.

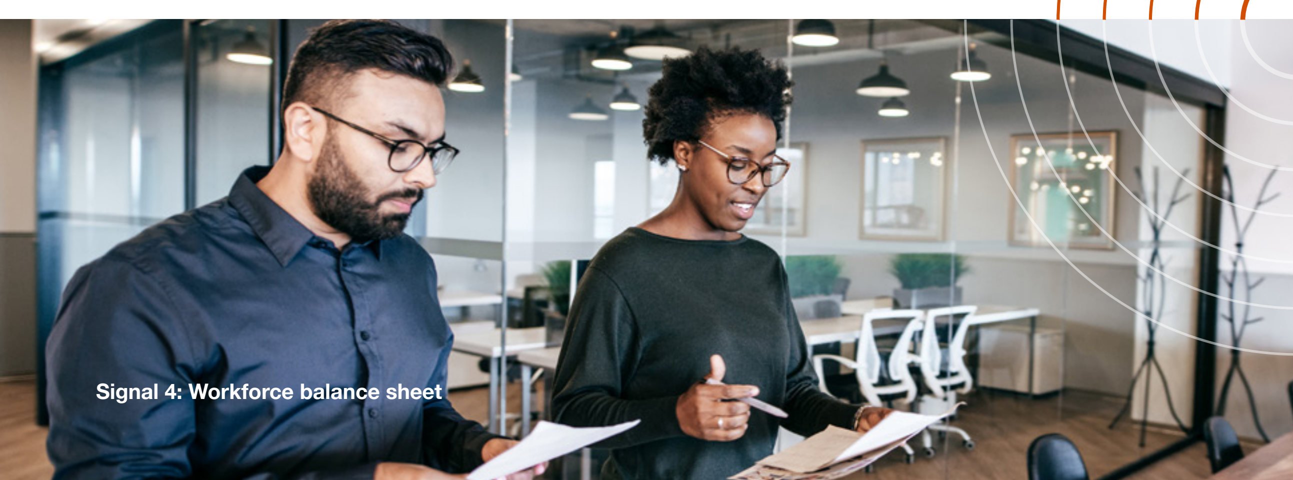
Lever 3: Uncovering hidden costs

A workforce balance sheet can also use talent analytics to collect and analyze data related to recruiting, onboarding, training and leadership development programs.

How quickly is your onboarding program preparing new employees to start performing their jobs? What is the actual cost of your onboarding program, including paperwork, HR staff and employee time, processing and materials development? Are participants in leadership development programs getting promoted at a faster rate? Are they staying longer with the company? Are they delivering more impact for the company throughout their tenure?

These costs can be considerable, yet they may not be especially top of mind for business leaders, including those in HR. They should be.

Access to a deeper level of understanding — where the money's going, including hidden costs — may require organizations to hire data scientists and analysts. They can look at the reams of data from offerings and determine their ROI and add it to the total cost of workforce calculation. If organizations don't already have these sorts of analysts on staff, they should hire them or train from within. It's the cost of doing business today.



Signal 4: Workforce balance sheet

Lever 4: Access to skills

Depending on your organization's skills and talent requirements, you may need to have offices or facilities in locations where it's easiest to find that talent. If that's the case, you need to consider the cost of that talent (it's probably going to be more expensive in New York, for example, than, say, Pittsburgh) and how that cost will not only impact the number of people you can hire, but the amount and cost of office space you may need. And that has tax implications.

Say you require specialized skills. You'll want to explore those cities or states where the greatest concentration of people with those skills live. If you need actuarial talent, Hartford, Connecticut might be high on your list of potential locations. (Though be careful. Hartford, like many cities, is evolving and soon may no longer be the actuary capital of the country, as it has long been considered.)

The opposite is true, too. Organizations with skills and talent requirements that aren't so specialized may prefer a higher availability of lower-cost talent, meaning they'll require less-expensive options, whether their teams are remote or require a lot of floorspace. Skills available and access to talent will impact your options, no matter your industry.

Not only does your location influence your bottom line with regard to labor costs, it also drives additional elevated costs of the recruiting process. (More competition typically correlates to a lower offer acceptance rate.) This may have tax implications and an associated impact on real estate costs. It's important for HR partners with other corporate functions like real estate to evaluate the cost and benefits associated with where your workforce is located.

There will always be location costs associated with running a business. But business leaders have options regarding these expenses, and knowing how to choose among them is what makes this lever such an important component of improving your workforce balance sheet.

Lever 5: Tax efficiency and optimization

It may sound counterintuitive, but depending on how you spend it, one dollar can actually be worth more or less than a dollar within the combined employer-employee relationship. That's crucial information when compiling a workforce balance sheet. To better understand the mix of dollars you're spending, it's important to look at how their **tax efficiency and process inefficiencies** actually affect the cost of that dollar.

As a basic example of tax efficiencies, a qualified retirement plan allows an employer to deliver immediately tax-deductible dollars to an employee, who then benefits from a deferral of personal income taxes. This combination of tax deductibility and deferral makes these dollars much more "valuable" than a simple cash award. Each delivery mechanism — be it an equity award, welfare benefit program or in-kind benefit — triggers its own balance of tax benefits that need to be assessed in confirming awards are properly "valued."

As for the impact of process, if you hand someone a dollar, it costs virtually nothing to deliver that dollar. But companies don't hand out money that way, so there's always some amount of incremental **process cost** involved in delivering it. If you've got a cube farm of employees filling out form after form manually to confirm they and their colleagues across the organization receive the proper pay, benefits or other rewards, then there's a meaningful cost to each of those. You may say, "Well, I'll just replace all those people with a third-party vendor or artificial intelligence or some other form of technology," but there's a cost to each of those as well.

Companies need to be thoughtful in how their reward programs align to market levels and align to corporate strategies. Typically, less thought is given to the actual costs of the real-world delivery programs. The resulting inefficiencies can be costly, so adding this line item to the workforce balance sheet is key.

Lever 6: What do employees want?

The aim here is to understand how to make every dollar of your **benefits and rewards program** — how you spend it or how you don't — as impactful as possible in your efforts to attract, retain and motivate employees. We've found that many companies don't even know the usage stats of their benefit offerings, since so much of it is outsourced to a wide variety of providers.

As discussed in Signal 1, to fully understand whether you're offering current and future employees a mix of benefits and rewards they actually want and will use — and will therefore support your talent search — you need to develop deeper insights into your employee preferences. You can deepen your understanding with preference analytics (as we noted earlier, a capability you may have to adopt if you don't already have it, but one that is necessary here and across other areas of cost savings). Preference analytics refers to the process of analyzing and understanding employee preferences to gain insights that can drive business decisions and improve the employee experience. It combines data collection and statistical analysis, among other analytics, to uncover what rewards and benefits employees value most.

Home improvement leader Lowe's, for example, used preference analytics combined with other data (retention, performance) to determine which benefits matter most to its employees. Preference analytics enabled Lowe's leadership to make smart investments in employee benefits and track the ROI. For instance, they know that participants in its debt-free continuing education program are more likely to stay with the company — and the data shows the longer these employees stay, the more revenue they generate for the company and better outcomes for its customers.

The use and value of some benefits or rewards may also have just run their course. Curtailing or eliminating them can allow you to replace them with other, more valued options. Preference analytics are essential because you are delivering hundreds if not thousands or millions of dollars each year on benefits and rewards. Informed by employee preferences — and the tax and process insights described earlier — just like Lowe's, you may be able to deliver a more effective and meaningful mix, while still improving workforce satisfaction. You might even retain employees longer at less cost, not to mention saving on the costs of having to replace them. There are ripple effects everywhere. In fact, in our experience, clients who have used employee preference analytics for their benefit programs have saved between $1,000 and $3,000 per employee per year that they were employed at the company.

Lever 7: Labor Mix

When it comes to your workforce — full-time, part-time, contract workers, gig workers, seasonal workers and others — the ability to rethink, reimagine, remix and reorganize it is how you can flex this lever to your advantage. But you can do that only if you have a strategy that allows for that kind of flexibility. When you do, when your labor mix reflects your business strategy, you'll have the power to weather changing circumstances and not react to them rashly or without the proper insights to make rational workforce decisions.

During the pandemic, organizations around the world implemented layoffs — some massive. That led some of these same companies to turn around not too long afterward and go on a hiring spree, often at higher salaries. A repetitive cycle of hiring and laying people off (or part-timing them) is expensive on a variety of levels, and also impacts the morale of the employees still at the organization.

Based on your business objectives, be strategic in the skills and talent you're building, buying, borrowing or bot-ing to identify which roles should be on the balance sheet and which should be off. We recommend segmenting the labor mix.

Core: Critical skills, experience and expertise that drive the business and profit (on balance sheet).

Strategic: Investment in growth areas and future skills (on HR's or strategic partners' balance sheet).

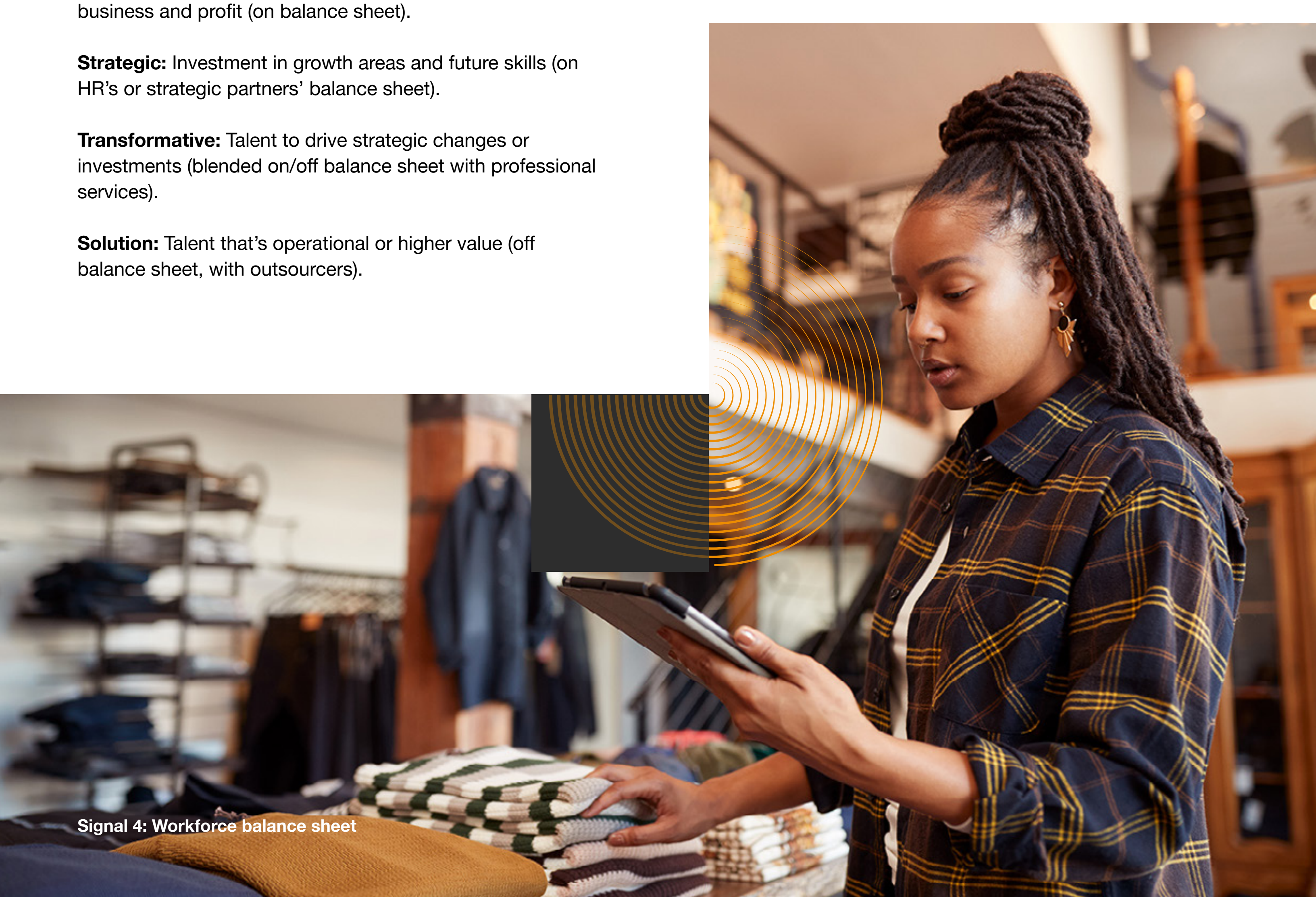
Transformative: Talent to drive strategic changes or investments (blended on/off balance sheet with professional services).

Solution: Talent that's operational or higher value (off balance sheet, with outsourcers).

This will allow you to rejigger your employee mix in a more effective and efficient manner.

Finally, assess whether it would be advantageous to your organization to add offshore or nearshore labor to reduce costs for more administrative and lower-value tasks. Both may offer substantial cost savings and can give you access to a global and perhaps more diverse workforce, plus the ability to operate 24 hours a day by leveraging time zone differences, among other benefits.

Insights like this can help you build a more effective build-buy-borrow-bot mix of employees, as well as a more effective strategy and flexible labor force.



Signal 4: Workforce balance sheet

Lever 8: Risk avoidance

Mitigating risk is a form of cost savings. The opposite is true, as well. If you don't mitigate risk, there is a cost not only in terms of actual dollars but in terms of reputation with your customers, investors, employees and potential employees. That cost may be hard to put a dollar amount on — maybe impossible — but it can be astronomical. Perhaps most detrimentally, cleaning up the aftermath of risk issues diverts other resources away from your business strategy.

Many types of risk can impact your workforce balance sheet and the costs you add to it.

- **Brand and reputation risk**
  When your brand — the company's mission, vision, purpose, culture, actions taken by employees or the business and your financial performance — causes a decline in the organization's reputation with employees and candidates, you may drive more employees out and attract a smaller or lower-quality pool of talent. If this becomes an ongoing downward spiral, in which fewer people want to work for your company, it can be difficult to pull out of it.

- **Incentive risk**
  There are some high-profile cases of organizations creating incentive programs for their executives and employees that inadvertently drove risky behaviors. Several years ago, regulators were scrutinizing big banks for improper executive compensation structures (including rewards) that were not in the best interest of their customers. The Department of Labor added significant requirements around fiduciary responsibility for financial advisors, including disclosures and limits to their compensation.

- **Cyber and physical security risk**
  There have been instances of employees making decisions that enabled bad actors to gain access to technology or physical locations. In response, some companies began to send out phishing "tests" to train their workforce to be aware of these risks and drive compliant behaviors.

- **Compliance risk**
  When company leaders and employees act in ways that run afoul of regulations, the results can be significant monetary fines and — in the most extreme cases — regulator-imposed limits on how organizations can conduct business. This risk is often related to incentive risk. If your company is regulated, tally up the fines it's paid in the past five years and ask your management team what you could have done with that money otherwise.

- **Execution risk**
  When employees don't have the right experience, skills and ability to perform their positions, we see that manifest in terms of project deadline delays, low productivity and other cost expenditures. Execution risk is highly dependent on appropriate talent selection to get the right people in the door. While 97% of business leaders think they're hiring the right people for the job, a quarter of employees think otherwise

Reducing risk is about more than rules, regulations and compliance. It's also tied to culture and leadership. Organizations with leaders who not only talk about values but live those values, as well as organizations with strong company cultures, are organizations where people feel connected to the company and to one another. They know how their job contributes to the organization's mission. They're motivated by the organization's purpose and are protective of it. In organizations like that, leadership and employees work to mitigate risk together.

Right now

Creating a holistic workforce balance sheet — emphasis on holistic — is a necessary but challenging undertaking. Here are the actions you can take so the work you put in is an asset to your organization.

1. First, partner with your CFO and other critical stakeholders to create or refresh your workforce balance sheet by gathering the data necessary to determine what your direct and indirect costs are in order to identify how to fill the gaps and improve key levers that drive the business.

2. Once you have your workforce balance sheet, analyze it for those areas where you're spending more than you like for the ROI you're getting, where you're not spending enough based on what you know your employees want and need, and how you can save money in one area to invest in another.

3. Finally, make a business case to present to your board that outlines your current spending, what you believe future spending can be for the greatest ROI and how you can use those savings to reinvest in your workforce. CHROs, this is your chance to be the hero in the boardroom.

Signal 5

Investing in building transformative leadership

Even good leaders need opportunities to expand their skills and practice what they learn

Leaning into being a talent magnet or factory, devising a location strategy, using AI to disrupt business-as-usual and creating a workforce balance sheet can only drive meaningful change if you give business leaders the opportunities they need to become the leaders you need. Training and development as well as building trust are levers you can use to ensure your leadership is ready when you are.

Transformative change starts with **transformative leadership**. The characteristics of the leaders who built today's great companies and now oversee them are not necessarily the skillsets that will be needed to continue to sustain that greatness. The world is changing too quickly and trends that impact every aspect of society, including business, are too powerful to ignore. Organizations acknowledge this, with developing leadership capabilities a top (49%) or medium (41%) priority among human capital leaders, according to our June 2024 Pulse Survey.

As we noted in the introduction to this report, C-suite executives only need to look in the mirror to see on whose shoulders an organization's future rests. Despite what others may say, it can't be outsourced to middle management. Good leaders know how to set strategy, get business results, lead people and build trust with stakeholders. But that's no longer enough. Over the next three years, business leaders need to demonstrate their value from the top down. They need to take ownership of the kind of innovative leadership their organizations deserve to prepare for — and navigate through — massive shifts and coming change.

Today's leaders need more than competency. They need vision. Vision to see beyond what works today to what will work in the future. They need to be able to absorb the four signals of transformative change that we've discussed so far and the levers that support them. These levers are available to reimagine, recalibrate and, in some ways, reinvent how leaders can pursue their organization's business strategies and objectives.

Additionally, transformative leaders need to listen. Active listening is more than a buzz phrase. It means fully engaging with your workforce. It requires an open mind, intention, empathy. It requires you to be nonjudgmental. Active listening is about more than the words being said. It's about the emotions and perspectives being communicated. No one can be a successful leader without bringing people along with them. But leaders need to know what those people want before they can lead them to where they need to be. Transformative leaders know and understand this.

To take advantage of the levers already described throughout this report — and the two levers related to transformative leadership — you need to gather information by listening to others, engaging with others, communicating and being transparent in their thinking, actions and behaviors. You'll need to create partnerships with others across the organization so transformation happens everywhere, not just in pockets here and there.

Leaders today and the work they do are on display more than ever. They're being watched and judged by their C-suite colleagues, employees, customers, investors, the 24-hour news cycle, social media, advocacy groups and others. That's reality. Everyone is accountable.

One person, no matter how extraordinary a leader they are, cannot do it alone. Nor should they have to. That's why they call it the C-suite — there's a suite of leaders who should act in partnership with the CEO and one another to transform the workforce. They all should be aligned in this endeavor, acting in concert through their actions, activities and behaviors. If they don't — when the CEO and CHRO are exhibiting the behaviors necessary to transform the organization, for example, but the CFO and COO, aren't — that's a problem. They need to be held accountable and reflect the needs of the organization.

NielsenIQ took a unique approach to accountability. The company first believed that leaders have a disproportionate impact on the employee experience, from attraction to engagement and retention, but before it could hold its leaders accountable for these outcomes, it had to create a point of view on what leadership at NielsenIQ looked like and meant to accomplish. So it crafted a learning experience to help leaders better understand their responsibilities, including the basics like holding regular meetings with their teams and monitoring their group's monthly KPIs; setting goals and goal clarity, and how to make sure people knew both what is expected of them and how their work connects to the rest of the company and its business strategy; and embracing an environment where people can do their best work. NielsenIQ's retention outcomes and engagement scores have improved over the past three years, a clear indication that intentionality in leadership expectations, no matter how talented those leaders are, is a differentiator worth investing in.

Driving change requires courage and maybe a little boldness. Driving transformative change requires a new mindset altogether, one that allows business leaders to see new opportunities in the chaos and behave in new ways that move their organizations forward to reach — and even exceed — their business goals, despite the megatrends and mega-headwinds they face.

Lever 1: Identify and develop transformative leaders

This may be hard to hear (and even harder to communicate), but not every leader across the organization needs to be, nor can they be, a *transformative* leader. And that's OK. There are many kinds of effective leaders.

But those who may have pivotal positions in driving transformation first need to be identified based on their previous performance and the leadership skills they've already demonstrated, suggesting they have even *more* leadership potential.

Second, those individuals need to be invested in, trained and developed to have the capabilities they need to drive transformation outcomes in line with business strategy. The ROI for investing in leaders with that potential can be greater and far more vital to your organization's success in the future than it would be if that investment was spread across a wider group of individuals.

Third, they need opportunities to apply those learnings into visible actions. Without them, these leaders will not create new habits and "show up differently" in their day-to-day behaviors, communications and decision-making. There's no point offering training to someone if there aren't sufficient opportunities to use it.

These leaders also need the permission and space to innovate, to try new things, to fail, to learn from failure, and to build the resiliency to try again. Leaders have always needed these abilities and opportunities, even if that wasn't spelled out quite so clearly. Yet experimenting, proposing new ideas, offering dissenting opinions — from the perspective of senior leaders, hallmarks of innovation — aren't as accepted as they should be or need to be. In fact, only about half of CEOs say their company leaders tolerate small-scale failures or encourage dissent and debate. This suggests that organizations often say they want to be innovation powerhouses, yet don't provide an atmosphere in which innovation can happen. They want to be innovative, but not if that means they may make mistakes along the way. That's just not how innovation works.

So there's a lot of work to do.

What's different now is that the levers available to prepare for and drive innovation are more robust than ever, more thoughtful, more conducive to creating change, more powerful — even more innovative themselves — which is why building those capabilities is so critical.

PwC's *Transformative leadership for extraordinary times* report outlines five leadership differentiators that enable executives to build these capabilities. When these differentiators are applied to everyday behavior, the form of leadership that results "enables executives to understand the nature of the changes that are required, take their organization on the journey to implement them and deliver results." What sets apart transformational leaders is that despite the disruptive and uncertain world in which they operate, they know how to:

1. **Make sense of the world** as a basis for reimagining how the organization is going to create value in a new, more complex system.
2. **Set radical ambition**, committing to help address a significant problem and compelling the organization to undergo fundamental transformation to achieve it.
3. **Achieve promised outcomes**, getting personally involved in reconfiguring the system to enable the organization to go beyond what it knows how to do and fulfill its ambition.
4. **Act as a catalyst**, attracting and bringing together the very different capabilities and talent needed to solve the problem the organization has set out to address.
5. **Power the engines**, so that leaders and their teams remain energized, grow and develop throughout the transformation, and beyond.

A few leaders have already learned to become transformative — but most haven't. There's no shame in that. The world's changing and the leadership skills that marked your career path are a good foundation for you to learn as you continue to move ahead. It's not only a matter of the ability to learn, but the openness to learning. Open yourself up to new ideas, new ways of being, new ways of leading. And then, expect your entire team to, as well.

Lever 2: Trust and communication

Among the skills any leader should have is communication. That's doubly important for leaders seeking transformative change across their organizations. Honest, **transparent communication** is key to trust, and trust is key to transformative leadership — so much so that 93% of business leaders agree that building trust and maintaining trust improves the bottom line. Interestingly, while 86% of business executives think employee trust is high, only 67% of employees say they highly trust their employer. This trust gap is higher than in the past. Our research also shows trust in senior leadership fell from 68% in 2023 to 62% in 2024. Trust in direct supervisors, however, has improved over time. The gap between employee trust in senior leadership compared to trust in their manager is 10 percentage points.

One of the keys to building trust is the increasingly talked about concept of coherence, or harmony. There has to be coherence across all your communications. By communications, however, we mean more than what senior leaders say (though that's important). We're talking about what senior leaders *do that* demonstrates their values and commitment to their organization's stated strategy. Avoid the say-do gap where your actions speak louder than your words and undermine the transformation goals you're trying to achieve.

Earlier we noted that CEOs and other senior leaders are being watched and judged by their stakeholders, and this includes their employees. Employees are, in fact, exceptionally attuned to what senior management says and does, especially in times of change within an organization, and never more so when the world itself faces an ever-growing list of risks and dangers, as it does now.

If leadership behaviors and company strategies and goals are misaligned, not only does trust suffer, but so does the organization itself because in these circumstances, it won't make the kind of progress it wants (or says it wants).

This is where trust and coherency in communications and behaviors start. As a senior leader, make sure what you're saying about:

- **… your organization's business strategy aligns with the actual strategy.**
  If your strategy is centered around innovation and disrupting the marketplace, but the reality is you've created an organization that is risk-averse, you're in trouble. People sense it. When they see that innovation is not supported, they won't pursue it even if the business strategy says that's a primary focus. In fact, our research found there is an 18-percentage point gap between leaders and employee perceptions that their company excels at innovation. Forty-eight percent of business leaders selected innovation as one of the top three areas their organization excels at, compared to 30% of employees.

- **… the business strategy comports with how you are leading the organization to achieve it through the decisions you make.**
  Take innovation, again. If you're centering your strategy around it but the decisions you make don't celebrate experimentation or provide an opportunity to learn from smart failure (or doesn't resource innovation properly) you will not gain buy-in or trust. What you're saying and what you're doing aren't telling the same story.

- **… how people's performance and commitment to the success of the business strategy are being measured and what the workforce feels is being measured.**
  To stick with the example, if your workforce hears you say that you expect innovation but the feedback and evaluation you receive doesn't support that goal, you've opened a cognitive dissonance that will be hard to overcome.

These disconnects are all about trust. They undermine senior leadership's ability to set and drive a transformative agenda for the organization. They are incoherent when what you want, what you need to build and sustain trust, is coherence between everything you do and say. A leader only succeeds, after all, if the people they lead trust them. Once that trust is gone, you may retain your C-suite title, but you won't be able to fulfill the responsibilities of the position. The tone at the top has to align with the workforce experience. That's what trust is all about. And without trust, there can be no transformative change.

Right now

Transformative leadership requires leaders willing to evolve and grow. Here are four actions you can take to help nurture the type of leader your organization and employees need.

1. **Look** at your organization and consider whether they have the skills and capabilities to drive transformation outcomes. If not, upskill and enable them. Consider the leaders that have an outsized role in your business strategy and transformation (e.g., leading functional transformations, large technology programs).

2. **Evaluate** those currently leading your transformation initiatives to help inform your succession planning. Reflect on and evaluate your current succession planning strategy. Be unafraid to take a chance on someone new who may be inspiring, open to change, or able to challenge the status quo. Demonstrate transformative change through action — if necessary, make the bold choice to remove someone from their current role and replace them with a more transformative leader.

3. **Build** an equitable succession strategy. Women often feel their needs are not met through current opportunities. Just 75% responded favorably to "I have equal opportunities for career advancement/mobility at my company" compared to 86% of men, while 83% of women responded favorably to "My organization provides me with a learning pathway that can help me be successful now and in the future," compared to 90% of men. Make sure all employees have equal access to the proper training and upskilling to grow and flourish in their careers.

4. **Drive** discussion with your executive leadership team (ELT) about your business and the trends impacting it to enable your workforce to learn or continue to operate at the highest level possible.

The Workforce Radar can accelerate your workforce transformation

Knowing where to focus and what to prioritize is key to moving forward with your workforce transformation

The next three years — just over a thousand days — will be pivotal. Whether you've begun a workforce transformation already or aren't quite there yet, now is the time to set the future of your organization in motion. Now is the time to examine and explore how you can make sure your organization and workforce doesn't merely weather the storms ahead but sails through them.

Throughout this report we haven't sugar-coated any of the challenges business leaders are up against. Over the past several years, business has changed.

These circumstances alone would have required organizations to rethink how they conduct business, not to mention where and even why. Add the megatrends to the growing list of challenges businesses need to contend with as they try to understand what the next three years and beyond looks like, and you can see that business has changed irrevocably.

No matter what happens, no matter how leaders reimagine and reshape their organizations, no matter how many of the levers we've discussed in this report are used to your company's advantage, one thing is certain: There's no going back. Even if your business could go back to pre-pandemic behaviors, that would be a terrible mistake. Despite how it came about, businesses today have an extraordinary opportunity to embrace the future and remake themselves purpose-fit for it.

This report is about establishing a foundation for organizations like yours to move forward, to find new ways of working, new ways of becoming and remaining flexible enough so that when you hit headwinds in the future — and you will — you'll be able to change course without falling behind.

It won't be easy, but it will be possible

We've gone into great detail throughout this report on the five signals and the levers comprising them. We know it was a lot, so we want to leave you with these five actionable takeaways, all of which are necessary to help begin, accelerate, continue or jumpstart your workforce transformation. If you do nothing else, concentrate on these core actions.

- **Empower your talent strategy to deliver on your *business* strategy**
  Business leaders and HR need to plan their going-forward talent strategy based on whether they need to lean into being a talent magnet or a talent factory. So, step one: Look at your business strategy and identify which end of that sliding scale your organization or business units within it need to move. Step two: Build or evolve your talent architecture to give you insights into the type of talent you need, the talent you have and the talent you're currently missing. For your workforce, clarify expectations for individual professional growth and advancement, and make sure your performance management system rewards people for their contribution to business outcomes. Improve real-time recognition and rewards to reinforce continuous improvement and contributions and align total rewards to support professional growth and employee needs.

- **Articulate your location strategy**
  The more informative data and deeper insights you form into your workforce and the skills and talent you have currently or need to acquire provided by the talent architecture can inform your location strategy. Map what you've learned to your existing office footprint and look for gaps. You may see you're lacking in a particular talent or skillset, for instance, and don't have an anchor in a city where you are most likely to find it (e.g., Hartford for actuaries, for instance, or San Francisco for coders). Consider what your organization has learned from the pandemic — what is truly required to be in the office, and where can you provide flexibility and hybrid working models? Also, take into account the tax implications and compliance requirements of the locations you have and any you may launch, as well as those from which your employees work remotely, which also may impact tax efficiency.

- **Make sure you're getting the ROI on your technology**
  Analyze where your current technology is providing the ROI you expected when you implemented it (and maybe more importantly, where it's not). Visibility into your technology ROI is essential. You can't invest in any foundational technology you lack, let alone invest in new technologies, including GenAI, without it. Without the foundational technology in place, and new technologies either in place or in the works, you can't lean into your talent magnet or talent factory side, you can't increase productivity and efficiency, and you won't be able to innovate to stay competitive and relevant in the marketplace.

- **Use your workforce balance sheet to analyze the *total* cost of your workforce**
  Identify the categories of data that are relevant to your organization and its business strategy (total cost of HR, labor mix, etc.), and then identify who in your organization is responsible for collecting it, analyzing it and presenting it. This is the only way you can start to understand your ROI in each area, where the money is going and how you can spend less in one area to reinvest more in another. This data is essential for being able to make the right decisions about the future of your organization over the next three years.

- **Invest in your leaders**
  It won't matter how many resources you put into implementing these signals or how much you amp up or tamp down various levers if you don't have a leadership team with transformative skills or the capabilities and vision to see them through. Companies will need to build internal trust, and that means developing your leadership muscle, communicating the reasoning behind strategic decisions and genuinely supporting all levels of workers through transformation. Transformative leaders can help their employees make sense of the large-scale business environment, push their organizations to achieve successful outcomes and create compelling, dynamic, exciting, supportive and anything-is-possible environments where workers (and, in turn, your organization) can thrive.

We know we've mentioned "the next three years" a lot in this report. It's not for nothing.

We truly believe they are pivotal years, not to be wasted. The five signals outlined in this report and the levers they comprise are fundamental to any progress you envision during this time. The result of getting them right is your foundation. Once you do, and once you start understanding how to use the levers to transform your business, you'll be able to create an organization purpose-built for the future.

About this report

Workforce Radar is based on research of companies, clients and data across the PwC network, including an April 2024 survey of more than 18,000 employees, 2,600 business leaders and 1,300 HR leaders. The lead authors of this research report include:

Anthony Abbatiello

Workforce Transformation Practice Leader, PwC US

Anthony leads the human capital consulting business for PwC and has spent three decades researching, leading and practicing across leadership, talent and human resources consulting.

Reid Carpenter

Global Leader, The Katzenbach Center for Leadership and Culture, PwC US

Reid leads PwC's center of expertise focused on providing practical, innovative insights around culture and leadership for organizations.

Christopher Hannegan

Principal, Workforce Transformation, PwC US

Christopher is a leader of PwC's leadership and culture offering as part of the Workforce Transformation practice. He has over 30 years of experience helping companies accelerate transformation through a focus on people.

Julia Lamm

Principal, Workforce Transformation, PwC US

Julia is a leader in PwC's Workforce Transformation practice, focusing on financial services and helping clients address challenges related to workforce strategy and planning, talent transformation and change management/adoption.

Craig O'Donnell

Principal, Workforce Transformation, PwC US

Craig leads the commercial efforts for PwC's HR and people-related practice areas. He has spent more than 30 years helping clients optimize their reward programs and general HR processes.

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